

Schroder ISF Global Recovery

Fund Managers: N. Kirrage, A. Lyddon & S. Adler: Q2 2021

Performance overview

- Global equities advanced during the quarter.
- The fund generated a positive absolute return but underperformed the benchmark.

Drivers of fund performance

- The leading individual contributor for the quarter was UK supermarket group **WM Morrison**. The group received a 230p per share takeover approach by US private equity firm Clayton, Dubilier & Rice. The approach was rejected by Morrisons' board but further takeover offers were subsequently made. As of early July, Morrisons had agreed to a 252p per share takeover by a private investment group led by Fortress.
- On the negative side, the main individual detractor was Japanese clinical testing specialist **H.U Group**. The testing market remains difficult with pressure to reduce laboratory test service costs. Rising Covid cases have also meant patients are less likely to seek tests for other healthcare concerns. H.U Group continues to focus on reducing fixed costs.
- Chipmaker **Intel** was another detractor. Intel's latest quarterly results were strong and demand for semiconductors from a wide variety of end markets remains very robust. However, capital spending looks likely to rise in the near term as Intel builds new factories and launches a service to make computer chips for other companies. These long-term plans will increase chip manufacturing capacity, which is currently failing to keep up with global demand.
- Some of our financial sector holdings also weighed on fund performance including **Barclays** and emerging markets focused bank **Standard Chartered**.

Portfolio activity:

- We initiated a number of new positions in the period.
- We bought telecoms groups **BT Group**. Telecoms companies need to make significant investments in fibre roll-out and new spectrum. BT is refocusing on its core telecoms and fibre operations, announcing in April that it is in talks to sell its sports broadcasting unit.
- We have diversified our advertising agency exposure, adding a position in Japan's **Dentsu**. It has global exposure with 50% of profits coming from Japan. The balance sheet is very strong and management has been selling cross holdings. There is potentially scope for additional shareholder returns if exceptional asset sales take place. Also in the sector we reduced positions in **Omnicom** and **Publicis**, both of which have performed well.
- Another new holding is **KDDI Corporation**. We see it as a high quality telecoms business with a strong balance sheet, and an impressive history of both earnings growth and progressive cash distributions to shareholders.
- We sold **Hyundai Mobis** and **Asustek Computer**.

Calendar year performance (%)*

| Year | Fund | Target** |
|------|-------|----------|
| 2020 | -5.8 | 15.9 |
| 2019 | 20.3 | 27.7 |
| 2018 | -14.0 | -8.7 |
| 2017 | 19.5 | 22.4 |
| 2016 | 16.1 | 7.5 |

Source: Schroders, net of fees, bid to bid, with net income reinvested. A Acc as at 31 December 2020. The target benchmark is MSCI World Net Return USD.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Risk considerations

Currency risk The fund may lose value as a result of movements in foreign exchange rates.

Currency risk / hedged shareclass The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Derivatives risk – efficient portfolio management Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

Emerging markets & frontier risk Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

IBOR risk The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Liquidity risk In difficult market conditions, the fund may not be able to sell a security for full value or at all.

This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

Operational risk Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Performance risk Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.

Stock connect risk The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

Counterparty risk The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

Higher volatility risk The price of this fund may be volatile as it may take higher risks in search of higher rewards.

Market risk The value of investments can go up and down and an investor may not get back the amount initially invested.

Important information

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****Benchmark** -The fund's performance should be assessed against its target benchmark being to exceed the MSCI World (TR) index and compared against the MSCI World Value (Net TR) index and the Morningstar Global Flex-Cap Equity sector. The majority of the fund's investments may be components of the target benchmark. The investment manager invests on a discretionary basis and is not limited to investing in accordance with the composition of the target benchmark. The investment manager will invest in companies or sectors not included in the target benchmark in order to take advantage of specific investment opportunities. The target benchmark has been selected because it is representative of the type of investments in which the fund is likely to invest and it is, therefore, an appropriate target in relation to the return that the fund aims to provide. Any comparator benchmark has been selected because the investment manager believes that the benchmark is a suitable comparison for performance purposes given the fund's investment objective and policy.