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Schroder ISF[1] Global Gold Fund update

February 2021

Fund performance:

The fund posted a return of -9.27% for February. This compared to the FTSE Gold Mines Index benchmark return of -12.10%.

I shares gross

US$ %	Feb 2021	YTD	2020	2019	2018	2017	2016	Since Inception[1] Cumulative performance	Since Inception[1] Annualised performance
Fund	**-9.27**	**-14.66**	**31.48**	**51.09**	**-13.90**	**11.28**	**-17.21**	**34.49**	**6.55**
Benchmark[2]	-12.10	-15.09	24.95	42.68	-10.04	10.23	-23.13	15.38	3.11

Calendar year performance

US$ %	2016	2017	2018	2019	2020
Fund		**11.3**	**-13.9**	**51.1**	**31.5**
Benchmark[2]		10.2	-10.4	42.7	25.0

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.
Source for performance: Bloomberg I shares gross USD. Performance is on a NAV to NAV basis. [1]Inception 29 June 2016. [2]FTSE Gold Mines Index. Typical ongoing charges for I shares are 1.07%.

Risk Considerations:

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. **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund. **Market Risk:** The value of investments can go up and down and an investor may not get back the amount initially invested. **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. **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. **Higher volatility risk:** The price of this fund may be volatile as it may take higher risks in search of higher rewards. **Emerging Markets and Frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets. **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. **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates. **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.

[1]Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

Current strategy and portfolio activity:

While the whole gold sector remains historically cheap, we continue to see the clearest value in mid-cap gold producers where examples of mid-teen FCF yields, very rapidly de-leveraging balance sheets and significant optionality around organic growth and/or dividend distribution policies stand out.

The logic for more industry consolidation, most likely centred on the small and mid-cap producers, also remains compelling and we expect activity to increase. As COVID barriers to site-based due diligence ease, we expect M&A to accelerate. With increased M&A in mind the fund continues to maintain a basket of exposures to pre-production developers, focusing on credible management teams with a clear path to construction.

Where valuations and management credibility pass our screens, the fund continues to maintain an overweight exposure to silver producers vs. benchmark. The fund holds no exposure to royalty producers. The relative valuation gap to producers remains unjustifiably large in our view. We also continue to hold zero exposure to gold bullion in the portfolio as producers continue to discount significantly below spot gold prices.

Gold market outlook:

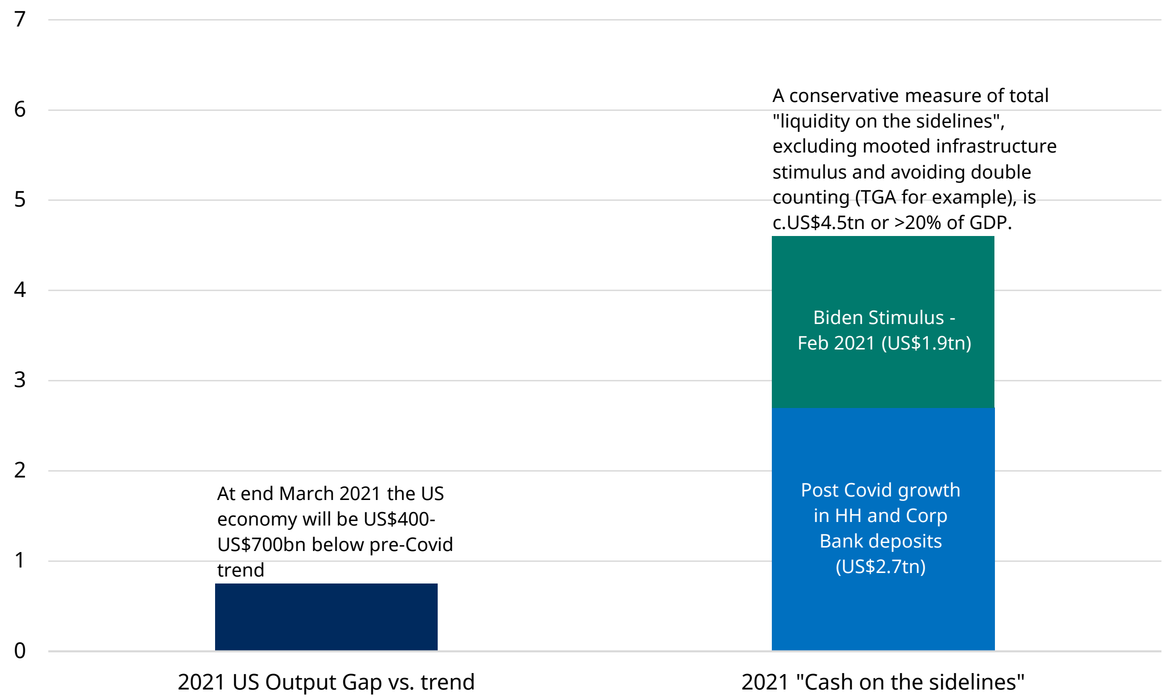
February was a rough month for gold, with prices falling 6%, the largest single month move since 2016. Sharp moves higher in nominal and real US treasury yields, a firm dollar and continued high expectations for post COVID economic normalisation have triggered continuing outflows from gold ETFs and kept prices firmly under pressure.

We are at risk of sounding like a broken record, but we continue to believe that we will look back at this period of gold market consolidation, now over 7 months old, as an excellent entry point.

Key to our structural thesis is inflation and how Central Banks react to it. Overall we think a period of explicit financial repression is likely. Inflation will (by design) be allowed to run hot and Central Banks will use their balance sheets to make sure bond yields do not rise rapidly enough to risk short circuiting both the economic recovery and with it the broader societal targets which policy makers have become focused on (inequality and climate change). Short-circuit risks are very high because global leverage is very high. The end result, we think, will be much lower real interest rates than have so far been witnessed.

Is there actually any evidence that Central banks and finance ministers are embarking down such a road? In late 2009, a year after the Global financial crisis struck, western governments were already pivoting towards fiscal austerity. Today the US Congress has just approved a US$1.9tn, or 7% of GDP, stimulus bill which has overwhelming public support even from Republicans. The US fiscal deficit in 2021 is likely to exceed 15% of GDP. While US GDP is around US$400bn to US$700bn[1] below pre Covid trend levels, the excess liquidity that may be about to be unleashed into the US economy is some share of at least US$4tn. Even assuming an abnormally low multiplier (perhaps due to precautionary saving, debt repayment etc) this suggests acute inflationary risks ahead. As Olivier Blanchard (a renowned dove ironically) has recently pointed out, the US economy could easily be taken well beyond capacity in coming quarters.

Chart 1: The US economic output gap (vs. trend) is tiny when compared to the scale of liquidity that could be unleashed into the real economy in coming quarters

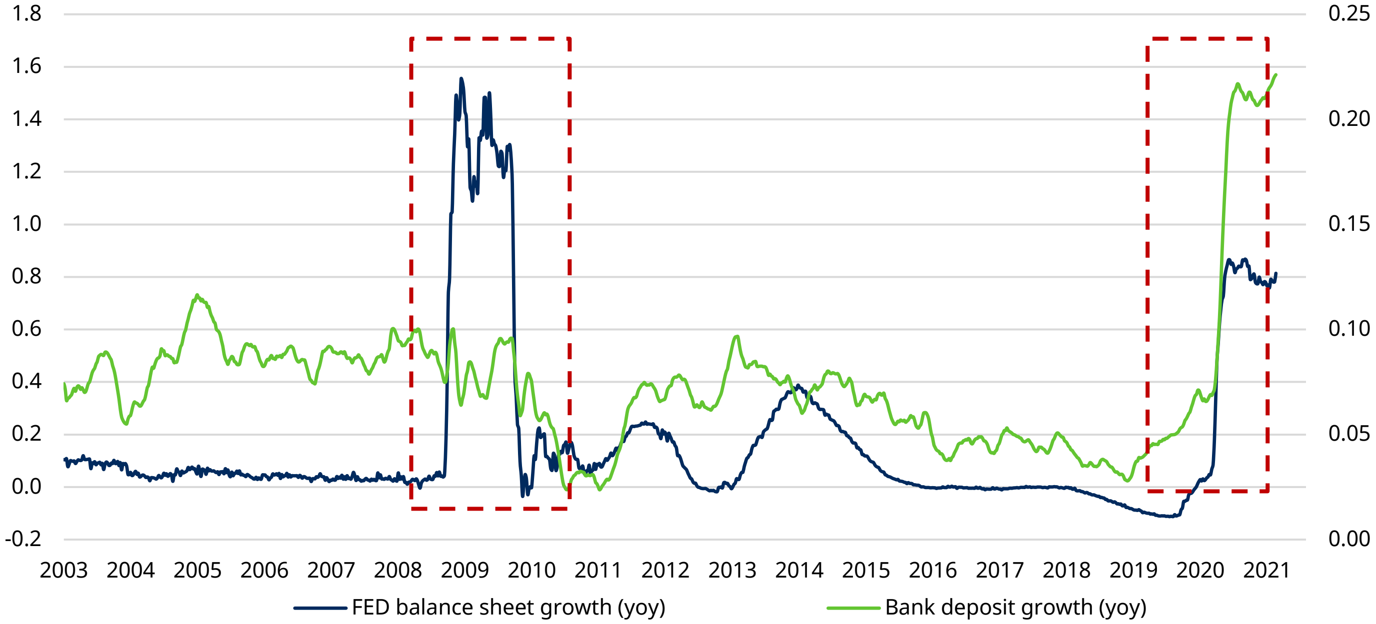


Source: Schroders; Bloomberg – March 2021.

The differences between now and 2008/2009 could not be more stark. As chart 2 highlights, in 2008 Fed money printing never reached the real economy. Today, that is simply not the case.

[1] US$400bn according to the CBO, US$700bn on our much less scientific measure.

Chart 2: In 2008 QE never fed through to the real economy, that is why bank deposits and broad money aggregates (M2) barely increased. In 2020/21 the picture is starkly different.



Source: Schroders; Bloomberg – March 2021.

The key question for investors beyond 2021 is whether this will prove to be transitory period of inflation or are we moving into a new inflationary era. We think the latter as Exhibit 1 highlights.

Exhibit 1: While we expect an inflation overshoot in 2021, the key debate will be how transitory this proves to be. It is quite possible we are entering a new inflationary era.

40 Years of Disinflation 1980 – 2020	A New Inflationary Era (2021 - ?)
Free markets and e-regulation	**Solve climate change and inequality**
Volker at the Fed (monetary dominance)	**QE infinity and loose fiscal (fiscal dominance)**
Independent Central banks	**Subservient, re-politicised Central banks**
Globalised labour supply (WTO, EU, NAFTA) & demographic dividends	**Re-shoring, US-China conflict, Ageing global population**
Supply chains (just-in-time)	**Supply chain resilience (replication and precautionary stocks)**
Mass movement of peoples	**Fear of immigration**
Asset inflation (Wall Street)	**Labour / commodity inflation (Main Street)**

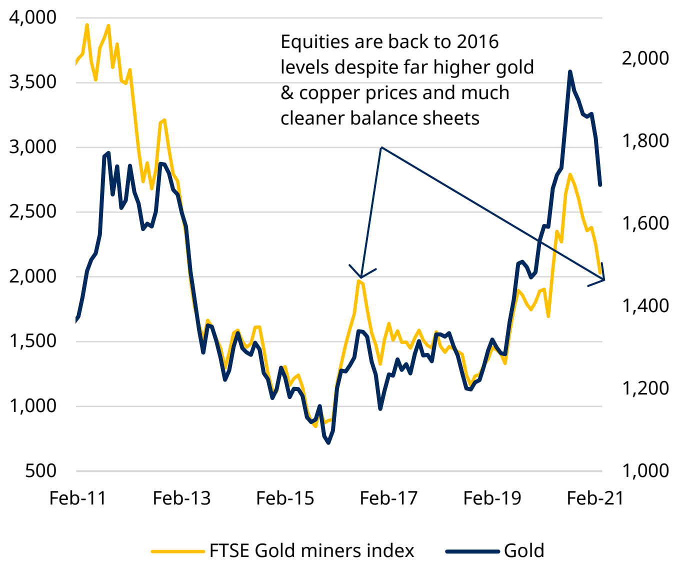
Source: Schroders – March 2021.

Gold equities:

Gold equities (as measured by the FTSE Gold Miners index, our benchmark) fell a further 12% in February, taking YTD losses to an unpleasant 15%. Large more liquid producers (64% of the benchmark on our definition) have continued to hold in better, as have silver producers, though overall it has been a grim start to the year across the space.

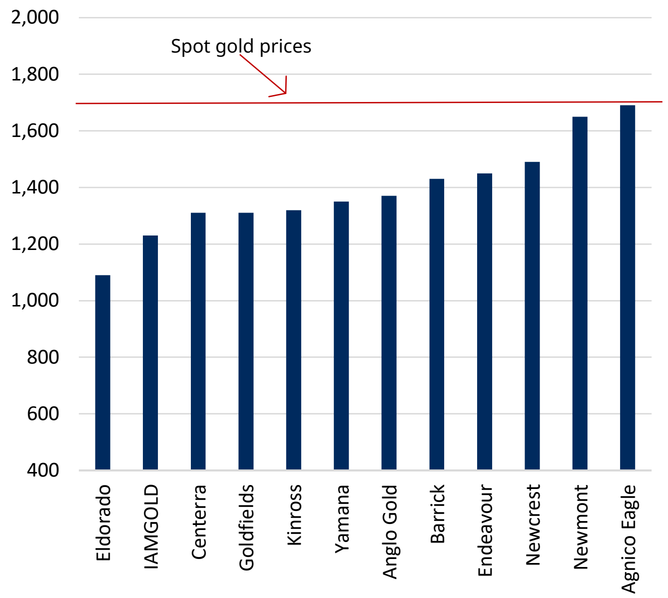
What is truly remarkable is that gold equities (on a simple share price basis – valuations are far cheaper) have now retraced all the way back to spring 2016 levels despite the fact that gold prices remain US$300/Oz higher and producers have come through an unprecedented period of balance sheet deleveraging since then (see chart 3 below). The producers themselves are now universally discounting prices below spot (see a selection of large producers in chart 4 for example). It is worth noting that Agnico Eagle, while discounting the highest gold price of the group, has in the past commanded as high as a 45% premium to the gold price and has de-rated from over 13x forward EV/Ebitda to below 7x times today using spot forward gold prices. This is little consolation to those of us who have endured the last six months share price declines, but it again re-enforces the view that the risk reward from here is compelling.

Chart 3: Gold equities vs. gold prices. Gold equities have retraced to 2016 levels despite much higher gold prices.



Source: Bloomberg; Schroders.

Chart 4: Larger producers are discounting gold prices well below spot



Source: Scotia; Schroders.

While not quite finished yet, reporting season has given us a clear sight on current producer cost conditions and expectations for cost inflation in 2021. This is a key input for gold producers and for our portfolio positioning. One of the reasons we are heavily invested in producers and have largely shunned both royalties and bullion is that we believe the producers are exceptionally well positioned to continue to generate very strong margins and are yet to be rewarded in valuation terms at all for that.

The greatest threat to that thesis is a period of blazing cost inflation that cannibalises these margins. Perhaps down the road such a period will again arrive. However, right now, overall cost inflation pressures remain muted. This is because while energy prices have recovered and producer currencies have in some cases strengthened there are some clear offsets:

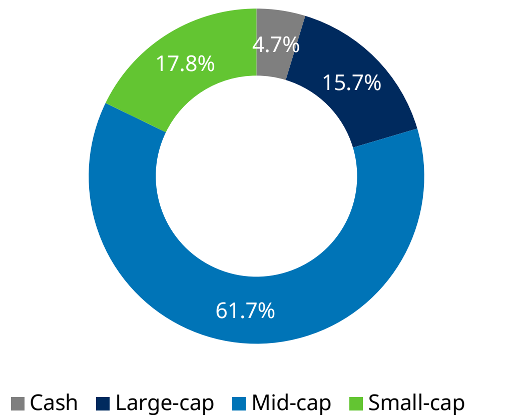
- Importantly, we are not seeing large increases in labour costs vs. prior periods.
- Overall 2021 volumes will be higher than 2020 due to COVID disruptions last year (this reduces per ounce costs).
- Base metal by-product revenues are moving strongly higher which also reduces costs since these are credited against per ounce gold production costs.

Overall we anticipate all-in-sustaining cost inflation in the high single digits for 2021. Looking ahead producer priorities represent a healthy balance of capital investment (Gold mining is a depletive business and replacing reserves, extending mine lives has to be a priority) and returns to shareholders. We can say with high conviction that the industry now represents much safer "beta" to the gold price than at any point in recent decades.

Performance attribution and portfolio activity:

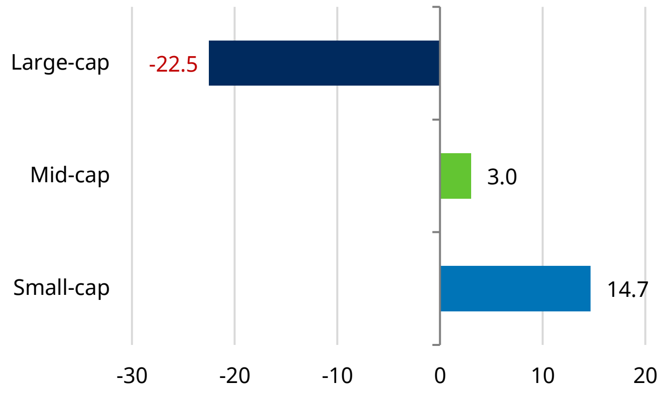
The fund fell 9.27% in February vs. a fall of 12.10% for the benchmark. Through the month the fund continued to reduce its exposure in Centerra (political risk) and for the first time in many quarters increased exposure to Newcrest mining. Newcrest has underperformed considerably in recent years but the combination of much more clarity at their cornerstone Lihir asset, a more reasonable valuation and high exposure to copper at Cadia and Telfer mean maintaining such a large underweight can no longer be justified.

Market cap (%)



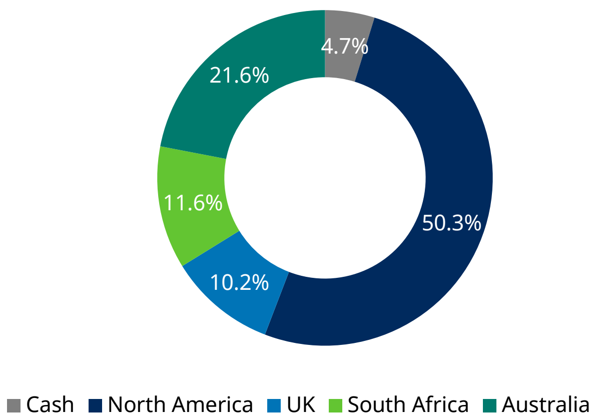
Source: Schroders, Bloomberg – February 2021.

Market cap over/underweight (%)



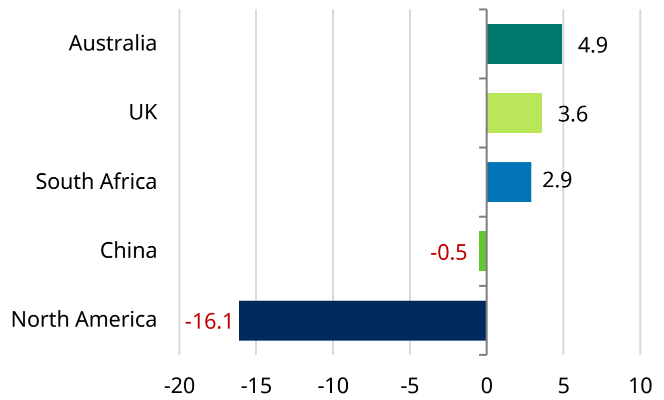
Source: Schroders, Bloomberg – February 2021.

Regional (%)



Source: Schroders, Bloomberg – February 2021.

Regional over/underweight (%)



Source: Schroders, Bloomberg – February 2021.

Important Information