Fund performance

The fund posted a return of 2.61% for October. This compared to the FTSE Gold Mines Index benchmark return of 3.50%.

Year-to-date 2018 the fund returned -20.24% compared to the FTSE Gold Mines Index benchmark return of -19.80%.

I shares gross

<table>
<thead>
<tr>
<th></th>
<th>Oct 2018</th>
<th>YTD 2018</th>
<th>2017</th>
<th>2016</th>
<th>Since Inception¹</th>
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<tbody>
<tr>
<td></td>
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<td></td>
<td>Cumulative Performance</td>
<td>Annualised Performance</td>
<td></td>
</tr>
<tr>
<td>Fund</td>
<td>2.61</td>
<td>-20.24</td>
<td>11.28</td>
<td>-17.21</td>
<td>-26.51</td>
</tr>
<tr>
<td>Benchmark²</td>
<td>3.50</td>
<td>-19.80</td>
<td>10.23</td>
<td>-23.13</td>
<td>-32.05</td>
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Calendar year performance

<table>
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<tr>
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<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<td></td>
<td>10.23</td>
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</tbody>
</table>

Source for performance: Bloomberg I shares gross USD. Performance is on a NAV to NAV basis. ¹Inception 29 June 2016. ²FTSE Gold Mines Index.

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.

Risk Considerations:

The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund. A failure of a deposit institution or an issuer of a money market instrument could create losses. The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. A derivative may not perform as expected, and may create losses greater than the cost of the derivative. Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk. Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. A rise in interest rates generally causes bond prices to fall. 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. Failures at service providers could lead to disruptions of fund operations or losses.

Gold and broader market commentary

Gold and silver prices stabilised through early October before commencing a recovery. The recent falls in the S&P 500 and concomitant spikes in volatility have triggered that recovery from lows below US$1,118/oz to around the US$1,230/oz level. Prices have risen despite a very firm dollar.

On positioning, Comex short positions remain at close to record levels with the market, on a net basis, still shorter than in the nadir of gold market pessimism in late 15/early 16. The only very slight increase in long positions, and moderate cuts to short positions seen so far mean there is likely further to go in this move for both gold and silver prices. Here and now we continue to believe the end of strongly upward trending low volatility US equity markets will trigger a return of interest to US based gold ETFs. Recent ETF trends suggest this is starting (see chart I overleaf).
If EM centric weakness and uncertainty around trade conflicts now begins to spill into US economic data then rates expectations and in turn the dollar will also be impacted. Such a scenario, combined with higher headline inflation, is far from a tail-risk and would drive a much larger move higher in gold and other precious metals. Timing such a scenario is obviously very difficult and we may have to be patient a while longer.

Official buying of gold is broadening and will turn positive in 2018 for the first time since 2016, with recent additions in Hungary and Poland standing out recently. To an extent official buying is a response to the more aggressive weaponisation of the US dollar (via sanctions) by the current US regime.

The World Gold Council (WGC) recently reported that gold demand trends have improved and Indian jewellery demand is experiencing significant year over year growth. For the year to end September the WGC noted a decent 9% YoY increase in jewellery demand, a 28% YoY increase in retail investor demand and a 22% YoY increase in central bank demand. Despite this gold prices are down YTD. What does that tell us? The answer is that gold prices, more than ever, are set via the marginal financial investor both on the Comex futures exchange and via ETF products.

**Gold equities**

Gold equity performance has been disappointingly weak through October, the aggregate index (FTSE gold mines) is up around 6% since gold price began to move higher, an outperformance of gold and the broader market indexes, but an extremely small move relative to how cheap the equities have become.

Part of the issue has been earnings disappointments from some of the major US producers which have led to very large on-the-day negative share price moves. It may sound like we are making excuses for the companies but we believe that quantitative and trend following systematic strategies are behind the bulk of these outsized moves. These types of "investors" have come to dominate US equity market volumes, and are over 70% of total volumes by many estimates.

Sectors in “out-of-favour” low liquidity phases, which is how we would classify the gold sector right now, are particularly vulnerable to very large share price moves in the event of earnings misses and guidance cuts. These are jumped on by such strategies who have their automated eyes firmly on the past, not the future.

This is not to excuse for failure to deliver on promises on the part of management (these can be very real!) but simply to emphasise that the scale of share price reactions can be completely out of proportion to the underlying impact of quarterly results on intrinsic valuations. This is a frustration for us, and for those invested in the sector, and is no doubt a little disconcerting for any standing on the sidelines considering increasing exposure.

A good example this quarter has been Goldcorp. Q3 earnings, production volumes and costs all missed guidance. Aggregate annual gold production guidance for 2018 was as a result cut to 2.28Moz from 2.5Moz. In addition the company reserve and resource update showed a small year over year decline.

These results come against the backdrop of CEO David Garofolo’s well publicised “20/20/20” strategic plan to grow reserves and production by 20% and reduce all in sustaining costs (AISC) by the same amount - all by 2021.
Chart II – The project timeline which backs up Goldcorp's 20/20/20 strategy

Source: Goldcorp – October 2018.

Optically these were horrific results because at face value they imply zero progress on any of the strategic goals; as one irate participant on the earnings conference call stated “is this not just an example of another failed gold company”? The market agreed, Goldcorp shares fell 18% on the day.

The reality is very different, and the share price move was completely irrational. As a result the fund has moved to an overweight position from underweight.

These single quarter results do not change the strategic direction of the company. Ironically, a large portion of the weaker results in Q3 came from the Penasquito operation in Mexico where the company has been ramping up the Pyrite Leach Project (PLP), a project designed to allow processing of higher carbon sulphide ores as well recovering significant amounts of gold already in stockpiles. The project was completed two quarters ahead of schedule. During ramp-up, as is normal, low grade feed was fed through the plant as any issues were ironed out. Recoveries can be low during ramp up so there is no point feeding high grade material. As a result, a period of weaker production was pulled forward, contributing both to the quarterly miss and to the company's need to pull down annual guidance.

Looking ahead to Q4 the company, presumably in a forlorn bid to reassure the market that Q3 numbers are not in any sense a steady state scenario, provided detailed mine by mine guidance on tonnage and grade to underscore management's confidence in delivering revised targets. Q4 guidance is now 620Koz (vs 502Koz in Q3) at US$750/oz AISC (vs US$999/oz).

The bottom line is quarter by quarter results should not matter this much. What matters is whether the strategic direction of the company is fatally compromised. The company's equity valuation suggests it is. We do not think it is.

The company is now trading at just over 5x EV/EBitda vs. historical average of 9.2 times. The company is trading on 0.6x price to book vs. 0.9x historically, a level which becomes interesting to deep value equity investors more used to screening ultra distressed companies (like Lonmin in the resources space). As with Randgold some months ago, Goldcorp now shows significant upside on a NPV basis using a US$1,300/oz gold long-term price assumption. This is quite a rare occurrence. All in all, while frustrating, such dislocations offer active managers like us an opportunity to increase exposures which will add value over longer time frames.

Chart III – Goldcorp price/book ratio

Source: Goldcorp – October 2018.
The Australian gold equities (ASX Gold Mining Index) increased by 5.17% in USD terms during October. At month end, the fund had around 17.9% exposure to Australian listed gold equities. This compared to the benchmark weight of 21.1%.

The South African gold equities (JSE Gold Mining Index) increased by 12% in USD terms in October. At month end, the fund had around 8.8% exposure to South African gold equities. This compared to the benchmark weight of 7.3%.

The North American gold equities (S&P/TSX Gold Index) decreased by -1.92% in October in USD terms. At month end, the fund had around 52.7% exposure to North American gold and precious metals producers. This compared to the benchmark weight of 59.6%.

**Performance attribution and portfolio activity**

October performance was broadly in line with benchmark. Fund activity included additions to Goldcorp (irrational and outsized move lower), B2 gold (increased confidence in Fekola and FCF generation) and Hocschild (anticipation of increased mine life and resilient FCF generation).

**Monthly chart pack**

**Chart 1: Spot gold prices expressed in various currencies**

**Chart 2: Consumer price index (CPI) for major economies**

**Chart 3: US core personal consumption expenditures (PCE) vs civilian worker wage costs**

**Chart 4: Total ETF gold holdings vs spot gold price**
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Source: Bloomberg – October 2018.