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Schroder ISF[1] Global Gold Fund update

December 2020

Fund performance:

The fund posted a return of 9.87% for December. This compared to the FTSE Gold Mines Index benchmark return of 4.45%.

I shares gross

US$ %	Dec 2020	2020	2019	2018	2017	2016	Since Inception[1]	
							Cumulative performance	Annualised performance
Fund	**9.87**	**31.48**	**51.09**	**-13.90**	**11.28**	**-17.21**	**57.59**	**10.61**
Benchmark[2]	4.45	24.95	42.68	-10.04	10.23	-23.13	35.88	7.04

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. The recently announced acquisition of TMAC by Agnico Eagle (after a bid from Shandong Gold was rejected by Canadian regulators) is the latest sign of that.

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 production. Kingston Resources was added during the month.

Where valuations and management credibility pass our screens, the fund continues to maintain exposure to silver producers and has recently increased exposure in this area.

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 below spot in our view and retain very substantial re-rating potential.

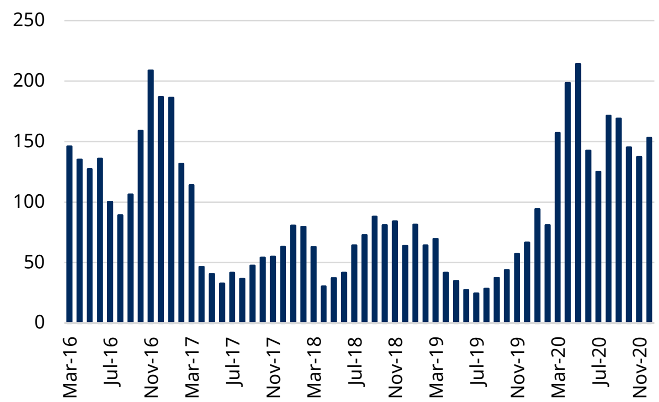
Gold market outlook:

Gold recovered in December moving 6.8% higher through the month to close out the year with a gain of c.25% on a spot basis, some 8% below the highs above US$2,050/Oz achieved in August.

We wrote last month that gold became a "vaccine victim" in early November as investors liquidated gold holdings and rotated towards sectors and asset classes deemed better exposed to a vaccine-driven reflation of the global economy in 2021. The reduction in ETF holdings in November 2020 of 3Moz was the largest since late 2016. Since then ETF flows stabilised in mid December and have since tuned again to net inflows, much earlier than we actually anticipated.

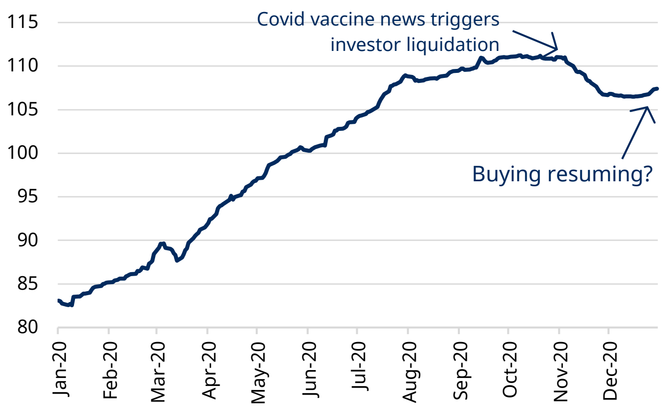
In fact overall "Monetary" gold demand (as we call it) clearly remains alive and well. Central Banks returned to net purchases in October, having recorded net sales in August and September (almost exclusively driven by Uzbekistan and Turkey). Data from the US showed gold coin demand (Eagles and Buffalos) up >700% YoY in November and December and up >400% for 2020 as a whole. Traditional commodity demand (jewellery, technology) is also showing signs of life. Indian gold imports, after a dreadful 2020, showed sequential improvement into year end rising 18% YoY in December.

Chart 1: Gold coin sales (US Buffalos, Eagles and Perth Mint sales combined), Koz per month.



Source: UBS, Schroders.

Chart 2: Total Known investor ETF holdings (Million Ounces)



Source: Bloomberg, Schroders.

Beyond short term moves, the outlook for inflation (which will drive real interest rates) and the outlook for the US dollar, remain the two most important questions for the gold price outlook. These factors drive demand for gold as a monetary asset. This type of demand now absolutely dominates jewellery demand, industrial demand, mine supply and other traditional factors in terms of gold price formation.

While deflationary forces undeniably remain present in the global economy, we expect the inflationary consequences of extreme monetary/fiscal policy co-ordination, particularly when combined with other secular trends, to usher in a new inflationary era. We think inflation could surprise a skeptical consensus as early as this year. Whether that view is correct, whether meaningful inflation does return, is probably the most important strategic question facing investors globally, and will have profound consequences for asset class returns. We will be writing in more detail about this and the outlook for gold and gold equities as we go through the year.

Gold equities:

Gold equities (as measured by the FTSE Gold Miners index, our benchmark) rose 4.5% in December, clawing back some of the losses from November. The fund did better than this, rising 9.9%[1], and closed the year some 6.5% ahead of the benchmark for a full year return of 31.5%.

[1] Performance is slightly flattered by timing issues around the striking of fund NAV vs. benchmark. This will be reversed in January

As readers of these notes will know, while we are very active in our management style, our view of underlying fundamental value (on an absolute and relative basis) plays a large role in our stock selection process. Sticking with, or increasing exposure to, deeply undervalued companies can be painful in the short run as timing exact lows is close to impossible.

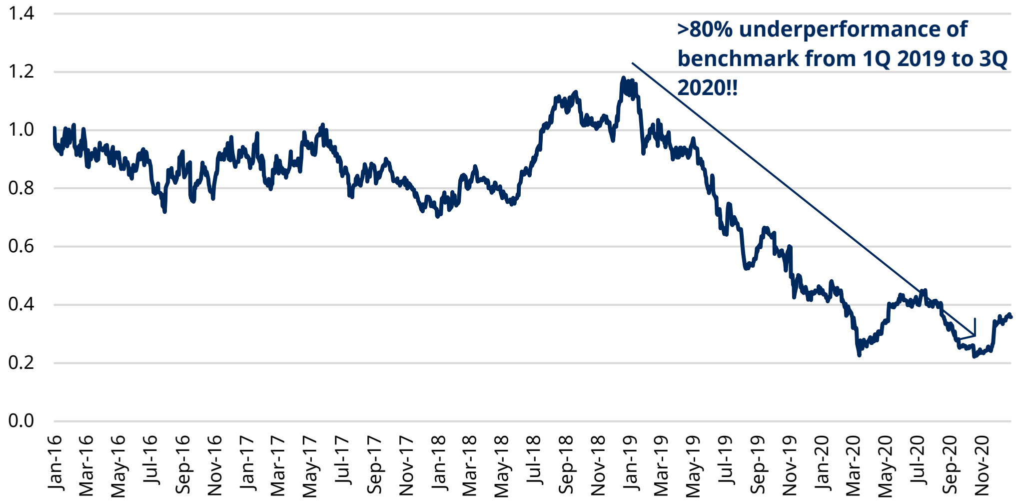
As we noted in our October 2020 monthly (see here) Oceana Gold has been one such stock. To say 2019/2020 were awful years for the company would be an understatement. Pretty much everything that could go wrong did go wrong. The loss of a production licence (Philippines), significant COVID impacts (US), deep out of the money hedge-books (New Zealand) among other issues all battered operational and management credibility. The result was close to 81% underperformance of the benchmark between March 2019 and November 2020.

To be clear, we have not been overweight the company over the whole of that period, in fact we were underweight for much of 2019.However on a relative and absolute basis the shares did begin to screen extremely positively from the middle of 2020. Moreover, despite management credibility falling to very low levels it was clear to us that while mistakes were made, the core of the operational team remained unchanged. Long term deep value was (and still is) very evident.

More mishaps in the third quarter 2020 (including significant further COVID and rainfall disruption at Haile in the US and an equity issue) meant poor share price performance lasted longer than we anticipated. Since then there has been some positive progress, In the Philippines a path to renewing the mining licence at Didipio has opened, while the company's debt commitments have been pushed out. These are positive steps and have driven strong outperformance from a low base.

However significant further milestones lie ahead including improved performance at Haile, more concrete progress in the Philippines, the rolling off of punitive NZD gold hedges, successful commissioning of the Martha underground in New Zealand as well as more clarity on the growth prospect at Waihi, also in New Zealand. While Oceana outperformance in December provided some boost to near term performance we believe there is much more to come. Other deep value positions in the portfolio worth highlighting are Resolute and St Barbara and we fully expect these positions to yield significant outperformance over 2021.

Chart 3: Oceana Gold relative performance vs. FTSE gold miners index (our benchmark)



Source: Bloomberg – 31 December 2020.

Equity subsector performance and positioning – 31 December 2020:

Australian gold equities (ASX Gold Mining Index) increased by 4.3% in USD terms during December. At month end, the fund had around 21.5% exposure to Australian listed gold equities. This compared to the benchmark weight of 16.2%.

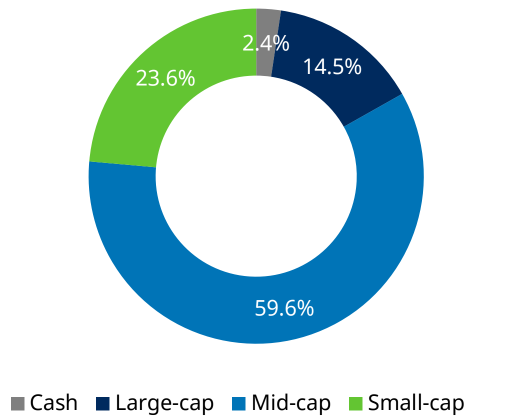
South African gold equities (JSE Gold Mining Index) increased by 11.8% in USD terms in December. At month end, the fund had around 11.5% exposure to South African gold equities. This compared to the benchmark weight of 8.6%.

North American gold equities (S&P/TSX Gold Index) increased by 3.2% in USD terms in December. At month end, the fund had around 54.3% exposure to North American gold and precious metals producers. This compared to the benchmark weight of 67.5%.

Performance attribution and portfolio activity:

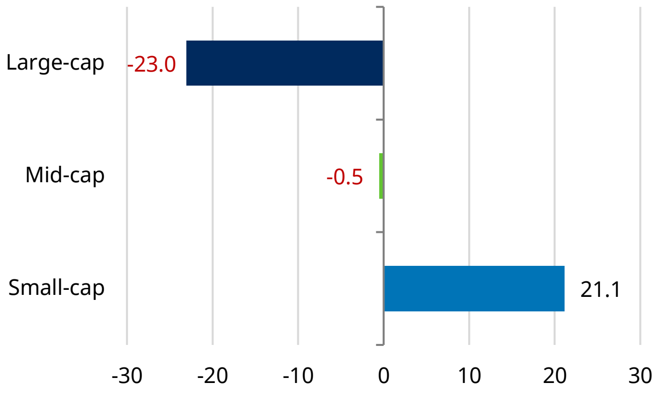
The fund rose 9.9% in December which compares to a rise of 4.4% for the benchmark. Overweights in Oceana Gold, Centerra and Perseus were some of the largest contributors to this strong performance.

Market cap (%)



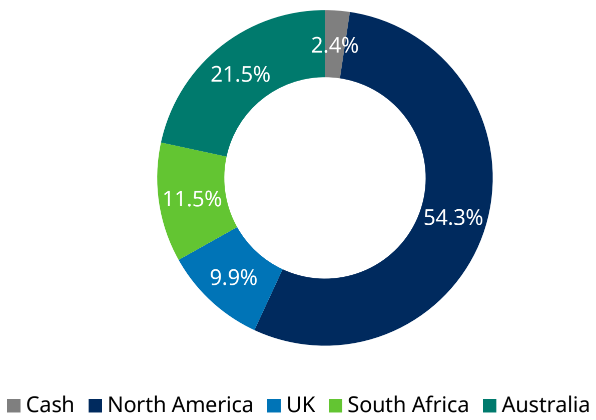
Source: Schroders, Bloomberg – December 2020.

Market cap over/underweight (%)



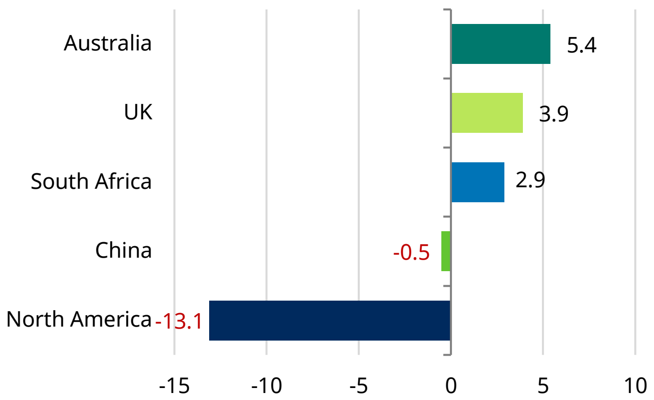
Source: Schroders, Bloomberg – December 2020.

Regional (%)



Source: Schroders, Bloomberg – December 2020.

Regional over/underweight (%)



Source: Schroders, Bloomberg – December 2020.

Important Information