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Schroder ISF* Global Multi-Asset Income

Fund Managers: Remi Olu-Pitan, Dorian Carrell | Fund update: October 2022

Performance overview

- October brought welcome relief across most developed markets. The US consumer continues to hold up relatively well, while European governments stepped up efforts to avoid an energy crisis this winter, both suggesting that risks of an overly harsh recession have faded.
- Emerging markets were dragged down by the sharp underperformance of Chinese equities. The closely watched 20th Party Congress reinforced President Xi's authority, as he secured a third 5-year term and packed his inner circle with loyalists. The removal of ex-President Hu Jintao from the conference garnered much media speculation while President Xi reiterated there would be no near term let-up in the country's zero-covid policy. New export controls on the chip industry - introduced by the US - also weighed on sentiment.
- Central bank activity remained on the hawkish side, with Federal Reserve minutes released on 12 October confirming that tighter policy is still needed to contain inflation, while the European Central Bank raised rates by a bumper 75 basis points. As a result global government bond yields continued to move higher, while corporate bonds (esp High Yield) were generally positive, benefiting from tightening spreads.

Drivers of fund performance

- All areas of the portfolio contributed over the month. Equities were the standout, with our lean toward the US and recent cut in emerging markets providing a regional boost.
- Within credit, high-yielding bonds in the US and Europe added to returns, supported by positive security selection. Investment grade finished broadly flat.
- Against a strong month for markets, our hedging positions were a slight detractor.

Portfolio activity

- With the US economy showing remarkable resilience, we added to our position in US banks, which should be a beneficiary of rising interest rates.

Outlook/positioning

- The question for investors is whether October was a bear market rally.
- This is not the first time we have seen bear markets driven by rising interest rates. History does not repeat, but it rhymes. The sources of fragility will vary from cycle to cycle, but as active investors we have the frameworks to price these challenges and consider relative valuations across asset classes.
- The improvement in valuations is most obvious in fixed income markets. For example, US investment grade bonds have moved from a yield of 2.2% 12 months ago to a yield of 5.9%. Meanwhile, US high yield and emerging market hard currency debt now offer yields above 9%.
- Against this backdrop, credit remains our preferred asset class as we are starting to be rewarded for taking risks in this space as higher starting yields act as a cushion against the impact of further price declines.
- We maintain a more cautious view on equities, where we still need to see more realistic corporate earnings expectations. However we recognise that we may see some short-term relief and have therefore focused on areas such as the US, where we believe companies still have the strongest earnings potential, and banks, which can benefit from rising rates.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Calendar year performance (%)

Year	Fund Net A Acc	Fund Net C Acc	Comparator
2021	4.6	5.2	7.1
2020	2.8	3.4	10.0
2019	12.2	12.9	17.5
2018	-5.4	-4.8	-2.9
2017	5.5	6.1	10.5
2016	7.4	8.1	10.0
2015	-6.9	-6.3	-0.6
2014	2.8	3.4	6.7
2013	5.8	6.4	9.0
2012	-	-	-

Source: Schroders, Thomson Reuters, 31 December 2021, A Acc & C Acc $ share class, net of fees. Please see factsheet for other share classes.

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Comparator benchmark: 30% MSCI AC World Index (USD), 40% Barclays Global Aggregate Corporate Bond Index (USD) and 30% Barclays Global High Yield excl CMBS & EMG 2% index (USD).

The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the benchmark. The investment manager will invest in companies or sectors not included in the benchmark in order to take advantage of specific investment opportunities.

Investment Objective

The Fund aims to deliver an income of 3-5% per annum and capital growth over a three to five year period after fees have been deducted by investing in a diversified range of assets and markets worldwide.

Risk considerations

ABS and MBS risk: The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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.

Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

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: Derivatives may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

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.

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

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.

Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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