Schroders

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Schroder ISF* Global Multi-Asset Balanced

Fund Update

August 2019

At a glance

Fund manager: Multi-Asset Investment Team

Performance: The fund returned -0.5% over the month**.

Contributors: Government bonds, high yield bonds.

Detractors: European and US Equities, emerging market debt.

** Source: Schroders, Thomson Reuters, 31 August 2019, C Acc, EUR share class, net of fees.

Calendar year performance (%)

	Fund
2018	-6.9
2017	3.7
2016	0.6
2015	-2.9
2014	6.5
2013	6.0

Source: Schroders, Thomson Reuters, 31 December 2018, C Acc share class, net of fees.

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.

Please see the respective fund factsheets for the performance of other share classes.

Market review

US shares fell over the month. The energy and financials sectors led the declines while perceived safe havens such as utilities and real estate performed better. The Federal Reserve (Fed) had cut interest rates, as expected, at the end of July. The Fed's comments, however, indicated that the move was an adjustment of stance rather than the start of an easing cycle, which seemed to disappoint investors.

Eurozone shares ended lower in August. Weak economic data from Germany, with the economy contracting in Q2, contributed to heightened worries over global growth.

The Japanese market fell sharply at the beginning of August and then moved sideways to record a total return of -3.4%. Asia ex Japan equities were lower as the US-China trade dispute escalated.

Emerging market equities declined as US-China trade tensions escalated. Amid rising uncertainty, those markets most sensitive to US dollar strength came under pressure.

Government bond yields declined significantly amid various geopolitical concerns (bond prices move inversely of yields). The US 10-year government bond yield fell 50 basis points (bps), closing the month at 1.50%, a three-year low, while the two-year yield fell 37bps, also closing at 1.50%.

European yields were meaningfully lower too, with Bund yields falling further into negative territory and peripheral bonds performing well.

Investment grade (IG) corporate bonds produced positive total returns, supported by falling global yields. Corporates underperformed government bonds, however, even as US dollar IG saw its strongest monthly total return in three years. High yield saw modest positive returns, underperforming IG.

Hard currency emerging market bonds made positive returns, but local currency bonds declined as Argentina's currency and bonds fell sharply.

*Schroder International Selection Fund is referred Schroder ISF throughout this document.

Portfolio overview

The fund returned -0.5% (C Acc EUR) in what was a turbulent August for global markets. In the US, the inversion of the 2-10 year yield curve, for the first time since 2007, highlighted US growth concerns. Meanwhile, the US-China trade dispute re-escalated as President Trump unveiled new tariff measures. Against this backdrop, equities detracted from returns as markets fell across the board. Our government bond exposure helped to mitigate losses.

During the month, we took steps to insulate the portfolio, reducing our equity exposure by 9%, ending the month at 24.5%. Specifically, we cut our allocation to US equities as valuation remains stretched.

We maintained the duration of the portfolio to 3.2 years in August. We kept our defensive allocation to government bonds. We also decided to book some profits on our exposure to emerging markets bonds.

Outlook

All year we have been focused on two inter-linked and somewhat offsetting trends: ample central bank liquidity and a weakening economic cycle. These two trends continue to intensify with more central banks, including the European Central Bank and the Bank of Japan, expected to join the "cutting club" before the end of the year, as well as the risk that political events (trade tensions, Brexit, etc.) might push an environment of anaemic growth into outright recession. In this environment, we remain neutral on equities, in part due to seemingly stretched valuations and an anaemic backdrop for growth. Although government bond valuations look stretched, positive momentum and soft cyclical indicators point towards maintaining a positive view on bonds as defensive positions in our portfolios.

Risk considerations

The capital is not guaranteed.

A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities.

Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa.

The fund invests in other funds and its liquidity depends upon the liquidity of those underlying funds. If underlying funds suspend or defer the payment of redemption proceeds, the fund's ability to meet redemption requests may also be affected.