Schroders

Schroder ISF* Emerging Multi-Asset Income

Fund Update

June 2019

At a glance

Fund manager: Multi-Asset Investment Team

Performance: The fund returned 4.6% (A Acc share class) over the month.**

Largest contributors: Broad emerging equities, Chinese equities

Largest detractors: Equities, convertible bonds

** Source: Schroders, Thomson Reuters, 30 June 2019, A Acc share class, net of fees.

Calendar year performance (%)

	Fund Net
2018	-13.7
2017	18.8
2016	11.0
2015	-
2014	-

Source: Schroders, Thomson Reuters, 31 December 2018, A 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

Emerging market assets rallied across the board in June. Signs that the US and China were poised to return to the negotiating table helped spur gains in China. The G20 Osaka Summit, which took place at the end of the month, after markets had closed, resulted in the two countries agreeing to pause further tariff rises and re-open talks. In addition, the US eased some export controls against Chinese telecoms company Huawei. South Korea also outperformed on the back of positive trade sentiment. Turkey and Thailand were the other strong performers and benefitted from a more benign backdrop.

Within fixed income, a cooling US dollar and return of risk appetite saw local denominated bonds strengthen by 5.6%, while hard currency bonds rallied 3.4% owing to the fall in US Treasury yields following dovish comments from the Federal Reserve.

Portfolio overview

The fund returned 4.6% (A Acc USD) in June.

Looking at our favoured markets, the fund's tilt toward Chinese and Brazilian equities contributed to returns while Indian equities faltered slightly after May's election driven excitement. Irrespective of short-term moves, we believe that these markets continue to offer some of the most appealing opportunities across the emerging market universe. We maintain our equity exposure at around 51%.

From a fixed income perspective, our allocation to hybrids boosted performance, led by convertibles which benefited from security selection and rising equity markets. Given increasingly expensive valuations in hard currency bonds, we maintained our disciplined and quality oriented approach, taking profits in some of the more expensive names. In local currency debt, on the other hand, given a more accommodative external environment and expanding opportunity set, we increased exposure. The fund's overall duration remains at 1.8 years.

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

Outlook

Whilst June was positive on the trade front, we remain cognisant that emerging markets are vulnerable to the ongoing ebbs and flows of trade skirmishes.

We continue to expect increasing divergence across emerging market regions, asset classes and securities as the year progresses, and we believe we are well positioned to capitalise on these idiosyncratic opportunities. As a result, we retain our nimble valuation based approach, looking to harness the entire spectrum of emerging market assets to generate attractive risk adjusted returns over the months and years ahead.

Risk considerations

The capital is not guaranteed. Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk.

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. Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class. 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. Emerging markets will generally be subject to greater political, legal, counterparty and operational risk. The fund enters into financial derivative transactions. If the counterparty were to default, the unrealised profit on the transaction and the market exposure may be lost.

There is no guarantee that a financial derivative contract will achieve its intended outcome, even if the terms of the contract are completely satisfied. Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.