Schroders

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# Schroder ISF* Global Diversified Growth

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**Fund update: January 2023**

## Performance overview

- The fund's performance was positive in January. Equity markets came out of the blocks strongly amid signs that the pace of interest rate rises in the US is slowing and inflation may have peaked.

## Drivers of fund performance

- The biggest driver of returns was equities, notably our core European equity portfolio. European stocks benefited from a brighter economic outlook as energy prices declined. In addition our core global equity portfolios supplemented returns.
- Fixed income strategies added value with allocations to high yield bonds and European credit performing well. Government bonds also supplemented returns, mainly from the US 10-year.
- Alternative asset returns edged into negative territory with our allocation to absolute return funds detracting over the month.

## Portfolio activity

- On a high level note, we added to equities and alternatives whilst trimming fixed income.
- Within equities, we topped up our core global equity allocation and emerging market equities as valuations are attractive and we felt the Chinese reopening would provide a boost to the region.
- In fixed income, in line with our view that the dollar will weaken we topped up our exposure to emerging market debt.
- Turning to government bonds we increased our short position in the German 2-year and took profits on the US 10-year. We also established a long Australian 10-year trade. This, as well as the US 10-year should do well in either a slowdown or a recessionary environment.
- Finally, we increased our exposure to commodities, focusing on gold as prices temporarily dipped.

## Outlook/positioning

- The biggest change this month is that we have upgraded our view on duration to positive.
- As mentioned in recent months, we believe that rate expectations are now more realistic and, with inflation declining, attention will now focus on the growth implications of higher rates. In fact, our cyclical models are pointing to an imminent "slowdown" phase which is typically supportive of bonds.
- A peak in rates takes some pressure off equity valuations leading us to a neutral stance.
- Corporate earnings expectations still look optimistic in the US so we remain underweight there but, consistent with positions established last month, we are positive on European equities and Emerging equities due to attractive valuations and the potential for economic surprises against low expectations.
- At this cyclical juncture, we expect to get some relief on inflation but remain alert to signs of recession.

## Calendar year performance (%)*

| Year | Fund Gross |
|---|---|
| 2022 | -11.9 |
| 2021 | 8.4 |
| 2020 | 4.9 |
| 2019 | 11.6 |
| 2018 | -8.2 |
| 2017 | 8.3 |
| 2016 | 4.8 |
| 2015 | 0.4 |
| 2014 | 7.8 |
| 2013 | 12.8 |
| 2012 | 9.8 |

Source: Schroders, Thomson Reuters, 31 December 2022, I Acc share class, gross of fees. Please see factsheet for other share classes.

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.

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

## Risk considerations

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

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.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

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

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.

Derivatives risk: Efficient Portfolio Management and Investment Purposes: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

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.

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.

IBOR: 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.

## Important information