Schroders

Schroder ISF* Global Diversified Growth
Fund Update
September 2019

At a glance

Fund manager: Multi-Asset Investment Team

Performance: The fund returned 0.0% (I Acc share class) over the month**.

Largest contributors: Global Equities

Largest detractors: Gold

** Source: Schroders, Thomson Reuters, 30 September 2019.

Calendar year performance (%)

	Fund
2018	-8.2
2017	8.3
2016	4.8
2015	0.4
2014	7.8

Source: Schroders, Thomson Reuters, 30 September 2019, I Acc share class.

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

The actions of major central banks once again comforted investors, with the US Federal Reserve cutting rates and the European Central Bank (ECB) following suit, while also announcing the restart of quantitative easing. Markets were also impacted by a rise in the oil price, sparked by attacks on Saudi Arabia's oil infrastructure.

Shares gained modestly in the US, where there was optimism towards a possible US-China trade deal. However, this faded towards the end of the month. Meanwhile, speculation over the possible impeachment of President Trump added to the uncertainty. The best-performing sectors were financials and utilities, while healthcare lagged.

Eurozone shares also rose, led by the financials and energy sectors, both of which had previously underperformed this year. The main underperformers were consumer staples and healthcare.

It was a similar story in the UK, where the financials and commodity sectors led the market higher. Sterling recovered after legal developments on the Brexit front increased expectations that a 'no deal' outcome would be averted.

Emerging market equities also recorded a positive return in September. Turkey was the best-performing index market as the central bank cut interest rates by more than expected. China recorded a marginally negative return, despite tentative signs of improvement in US trade negotiations during the month.

In fixed income, the better mood in markets saw government bond yields rise and corporate and emerging market bonds outperform. The US 10-year Treasury yield rose by 17 basis points (bps) to 1.67%. The yield retraced from an intra-month high of 1.9% after the attack on Saudi Arabian oil facilities.

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

Corporate bonds reflected the rejuvenated risk appetite, with high yield delivering positive returns and outperforming. Investment grade corporate bonds produced negative returns, although they still outperformed government bonds.

Portfolio overview

Global equities delivered the largest contribution to return in September. Notably, "value" equities recovered over the month, outperforming the "growth" style. While the Fund's regional equity exposure was largely positive, small losses were made on a short position in European large cap equities. We retain a negative view of this market as consensus earnings forecasts have been deteriorating.

In fixed income, contributions were led by US high yield debt, driven by supportive demand. In one area of activity, we rotated some US treasury exposure into the longer end of the yield curve to pick up on additional carry. In alternatives, we topped up the Fund's allocation to gold; the Fund continues to own US duration and gold as a hedge amid rising growth risks to the global economy and intensifying geopolitical tensions.

Outlook

Although there has been a backup in government bond yields over the last couple of weeks, we continue to see evidence of weakness in the global manufacturing cycle and central bank liquidity has pushed markets to even more expensive levels. Looking across the world, we find that these trends are at their most extreme in Europe, as growth here is at its most anaemic and the consequences of central bank policy for the bond markets have been most pronounced. With regard to equities, the cyclical picture and its potential repercussions for US earnings in 2020 cloud the horizon but we remain invested for now due to low rates.

An improvement in the trade war rhetoric is still a possible wildcard. With central bankers (ECB) now messaging that we have reached the limits of monetary policy, it is also possible that governments move to a more forceful fiscal response but we believe this will take some time. As a consequence, we continue to tread a careful line between benefiting from the liquidity environment without taking too much cyclical risk.

Risk considerations

The capital is not guaranteed. The fund intends to make regular fixed distributions to investors and, if its income is insufficient to cover these payments, these payments may reduce the fund's capital. 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 issuer of Mortgage or Asset backed securities may have a limited ability to recover amounts due if the underlying borrowers become insolvent or their collateral drops in value. A financial model may provide a technique to identify and manage the risks of the fund. The model's assumptions, calibration and programming may not deliver the expected results. The fund may hold indirect short exposure in anticipation of a decline of prices of these exposures or increase of interest rate. The fund may be leveraged by trading in a high volume of derivatives to achieve a risk target consistent with its risk profile. Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.