Schroders

Marketing material for professional investors or advisors only

Schroder ISF[1] Wealth Preservation
Fund update
September 2019

Investment aim and approach

The fund aims to preserve and enhance real value, as measured in euro terms after adjusting for inflation over 3-5 years. The fund may invest globally in equity and equity related securities, a broad range of fixed income instruments, investment funds, investment trusts, ETFs, money market instruments, cash, deposits and alternative asset classes in any currency. May also invest in financial derivative instruments, including forwards and futures. The fund may, at times, be substantially invested in cash and money market instruments when necessary to preserve capital.

- Actively managed real return fund
- High levels of flexibility and diversification
- Long only, no leverage
- Liquid alternative investment
- Broad investment universe and wide asset class ranges
- Medium-term time horizon

Market review

The performance continued to tread water in September, maintaining the gains from earlier in the year. September 2019 may turn out to be the month in which the US dollar finally peaked. While it is hard to be convinced of this there are some signs the long awaited dollar strength is coming to an end.

The US dollar has been rising in value for the past 8 years. So why is it likely to stop this trend and start to weaken? The key is the relative performance of the US economy versus the rest of the world. The US economy has been in a steady range for some time, neither hot nor cold. But over the last 18 months it has stood alone as Europe and most Asian countries have experienced significant slowdowns, in many cases accompanied by a manufacturing recession. This is in part a result of the US/China trade tensions.

But the tide may be turning. While data in Europe and Asia is starting to stabilise somewhat the data in the US has turned lower as the US catches the cold others have had. It's this change in expectations that is important. The assumption had been the US would stand tall but now that seems less likely. The response from the Federal Reserve will be to cut rates further but also a resumption of money printed is likely to follow soon. This should be enough to put pressure on the US dollar.

The importance of this to all financial assets is hard to overstate. A weak US dollar should oil the wheels of the financial system and benefit those assets most that are undervalued and under owned. These included most commodities, including precious metals, and emerging market currencies. During September the commodity holdings in the fund were diversified away from just precious metals to include copper, oil, coffee, corn and cotton. Many of the agricultural commodities are cheap by historical standards but supply constraints are starting to emerge. Moreover, few investors own commodities any more, despite them being a natural hedge against inflation.

The return to money printing in the US may well be the catalyst required to start the next commodity bull market. The Wealth Preservation Fund has the flexibility to make the most of this opportunity. If the turn lower in the US dollar is confirmed some Emerging Market currencies should benefit. For example, the Brazilian real has spent much of the last decade depreciating from $/Brl 1.55 to $/Brl 4.15. This significant change in valuation isn't justified from a fundamental standpoint with reforms underway and inflation under control. The potential for appreciation is significant.

In a shift away from the ultra-defensive position adopted over much of the summer the fund has decreased its exposure to the Japanese yen and US bonds and bought a small exposure to a select group of stock markets, namely, Korea, Thailand, Greece, Russia and European banks. At the start of September the fund held no exposure to stocks, now this basket of stocks represents 10% of the fund. Part of the reason for the allocation is the current market sentiment. Our analysis suggests many have are already positioned for poor economic growth by buying bonds and sell stocks. The lagged impact of monetary easing should start to become evident in

[1]Schroder International Selection Fund is referred to Schroder ISF throughout this document.

Q4, outside of the US. To be clear, we aren't expecting a return to strong global growth outside of the US, it is more the fear factor is already high. The time to buy is when many can't think of any reason to, it feels like now is one of these times. Moreover, the selected markets offer good value.

The fund continues to hold a basket of high yielding bonds, the high real yields should help to generate returns above inflation – the primary aim of the fund. If our analysis is correct and the US dollar does start to turn lower over the next quarter the fund should be well placed to benefit. The lack of benchmark means the fund has the flexibility to profit from such shifts.

Fund performance – 30 September 2019

EUR C accumulation shares gross

%	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2000*				-0.06	-0.72	1.76	2.24	1.74	-1.85	-0.03	0.76	2.82	6.77
2001	2.91	0.44	0.37	0.43	0.93	1.07	-1.40	1.80	-1.12	2.76	2.69	1.86	13.40
2002	0.82	0.40	0.73	1.71	0.07	0.64	0.49	1.45	1.99	0.94	1.32	1.46	12.69
2003	0.02	0.69	-0.51	0.24	0.17	0.54	0.02	0.56	0.34	-0.33	-0.56	1.24	2.43
2004	-0.48	0.94	1.97	-0.83	0.34	0.70	0.84	-0.25	1.27	0.83	1.39	2.01	9.04
2005	0.11	1.77	-1.24	-0.57	0.67	1.07	-0.03	0.86	-0.03	-0.57	0.59	0.45	3.09
2006	0.72	0.65	-1.23	0.11	0.25	-0.23	0.45	0.39	0.31	0.78	0.91	1.37	4.52
2007	-1.28	0.37	1.17	0.63	-0.15	0.50	0.17	-0.22	0.50	1.41	0.88	-0.34	3.70
2008	1.01	1.19	-0.14	0.55	1.05	**0.61	1.35	-0.62	-0.01	-0.75	2.04	1.21	7.70
2009	-0.55	-0.68	0.42	3.23	1.77	1.69	3.78	1.44	2.19	0.43	0.59	0.43	15.65
2010	0.69	0.42	0.95	0.11	0.06	0.21	-0.10	1.88	-1.07	0.00	-0.51	0.47	3.13
2011	0.11	0.11	0.16	0.78	0.11	-0.10	-0.05	-0.46	-0.67	0.06	-0.21	0.37	0.20
2012	0.00	-0.16	-1.11	0.43	-2.93	1.20	0.92	0.43	1.56	1.69	1.51	2.21	5.81
2013	0.61	-0.14	-0.70	1.12	0.91	-0.74	***0.56	1.20	-0.64	1.40	-1.37	-0.54	1.63
2014	-0.05	2.37	-0.83	0.29	0.44	1.62	-0.15	2.04	-3.77	-1.20	0.14	-2.02	-1.26
2015	2.87	-0.21	-1.16	1.46	-1.16	-2.35	-1.58	-1.60	-0.66	-0.78	-0.62	-1.23	-6.90
2016	1.54	0.42	6.72	9.39	-2.48	3.94	-0.06	-1.16	-1.27	-0.98	-0.31	1.75	18.18
2017	0.37	1.20	-0.11	-1.02	-0.11	-0.68	0.03	-0.09	0.91	-0.10	0.04	-0.62	-0.21
2018	0.46	-0.51	-0.26	0.04	-0.57	-1.76	-0.01	-1.83	0.26	-0.20	0.59	0.47	-3.32
2019	**3.04**	**-0.55**	**-0.21**	**0.36**	**0.42**	**3.23**	**0.35**	**-0.19**	**-0.06**				**6.48**

*Inception 31 March 2000 (Launched as Schroder ISF Converging Europe Bond).
**1 June 2008 the fund changed its name to Schroder ISF Emerging Europe Debt Absolute Return.
***1 July 2013 the fund changed its name and objective to Schroder ISF Wealth Preservation EUR (Subsequently changing its name to Schroder ISF Wealth Preservation on 2 November 2015).
Source: Schroders.
Typical ongoing charges for C shares are 1.07%.

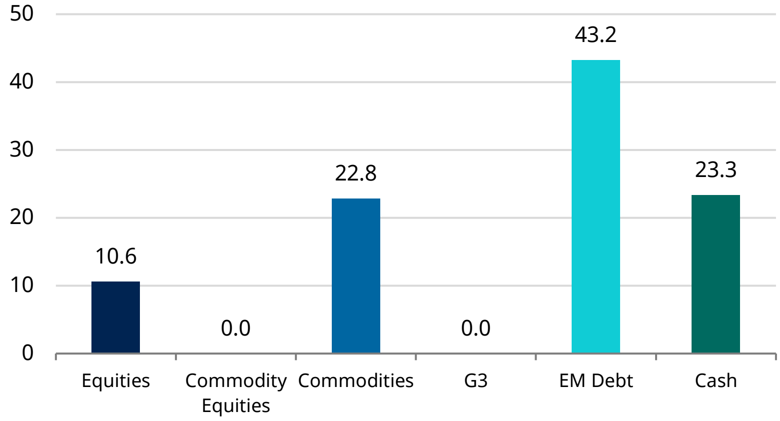
Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

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. Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund. 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 will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets. The fund may hold indirect exposure to commodities. The value of these investments may be affected by changes in overall market movements, commodity index volatility, factors affecting a particular industry, natural events, embargoes, tariffs and international economic, political and regulatory developments. Emerging markets will generally be subject to greater political, legal, counterparty and operational risk. The fund may hold indirect short exposure in anticipation of a decline of prices of these exposures or increase of interest rate. 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.

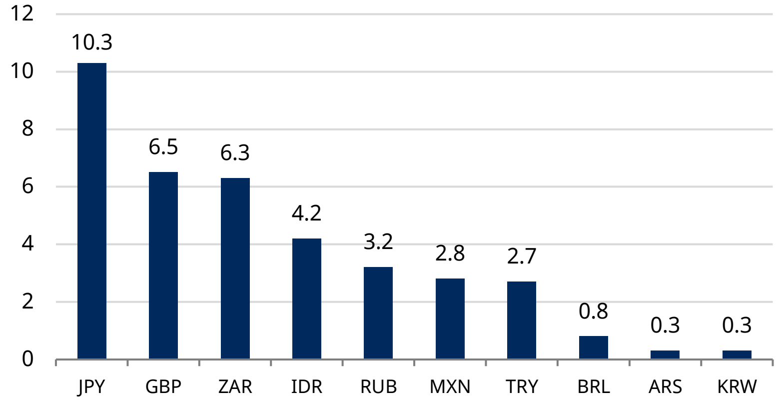
Fund positioning – 30 September 2019 (%)

Sector allocation	Fund weighting
Equities	
EU	2.1
Greece	1.0
Korea	4.4
Russia	2.0
Thailand	1.0
External Debt	
Argentina	0.2
Local Debt	
Argentina	0.3
Brazil	0.8
Indonesia	4.2
Mexico	6.1
Russia	3.8
South Africa	6.3
Turkey	2.7
USA	2.0
FX	
GBP	6.5
JPY	10.3
Commodities	
Coffee	2.0
Copper	2.0
Corn	2.1
Cotton	2.1
Gold	3.7
Silver	4.4
Oil	6.4
Cash	**23.3**

Regional exposure %



Currency exposure %



Source: Schroders.