Schroders

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Schroder ISF* UK Equity

Fund Manager: Bill Casey and Nick Kissack | Fund update: Q4 2022

Performance overview

The UK and developed market shares in general notched up strong gains. These were driven by hopes of a central bank "pivot" and a peak in inflation. Sentiment was also helped by an abrupt decline in the dollar and China's rapid shift away from its zero-Covid policy at the period end. These positive developments, however, were offset by an arguably more hawkishness turn in December by the major advanced economy central banks, including, surprisingly, the Bank of Japan.

The fund outperformed the FTSE All-Share index.

Drivers of fund performance

Investment manager **Ashmore** was our top contributor as sentiment improved towards emerging markets (EM). The shares recovered very well but we also benefited from having increased our position size after using weak sentiment earlier in 2022 to increase the holding. Ashmore is one of our core mid cap growth stocks with its best-in-class long-term track record in EM debt, alignment with the founder-CEO and high returns on capital driven by leading industry margins. Clothing and homewares retailer **Next** also recovered from depressed levels as the company continued to outperform a tough market. Asian-focused insurer **Prudential** had a strong month as a result of China's move away form zero-Covid. This could allow free movement of people to and from Hong Kong, which is important for the company's cross-border insurance-writing business which has been hampered for almost three years as a result of pandemic restrictions. On the negative side, the underperformance of food science and ingredients business **Kerry**, digital media and content company **Future** and French IT services group **Capgemini** could all be attributed to some degree or another by a shift away from quality growth stocks over the period. In the case of Capgemini there was nothing stock specific and the company actually revealed in its Q3 results that it was on track to hit the top end of 2022 guidance. Kerry partly suffered as a result of softening sales volumes through the course of 2022, while succession concerns weighed on Future as news of the departure of its very well regarded CEO continued to reverberate.

Portfolio activity

We used share price weakness in the wake of its half year results to initiate a new position in footwear retailer **Dr Martens**. Other than this there was little trading activity of note over the period.

Outlook/Positioning

It seems the global economic recovery is at risk of becoming a global recession. Inflation could cool, however, giving central banks room to ease on hikes.

We're focused on quality, industry leading companies (pricing power protects real returns and dividends) and avoiding highly leveraged, low return ones.

Calendar year performance (%)**

Year	Fund	Target
2021	13.3	18.3
2020	-17.0	-9.8
2019	13.9	19.2
2018	-8.6	-9.5
2017	7.8	13.1
2016	13.1	16.8
2015	2.6	1.0
2014	2.6	1.2
2013	28.6	20.8
2012	17.1	12.3

Source: Schroders, net of fees. NAV to NAV, with net income reinvested. GBP C Acc as at 31 December 2021. The fund's performance should be assessed against its target benchmark being to exceed the FTSE All Share Total Return Index. The fund's investment universe is expected to overlap materially with the components of the target benchmark. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the target benchmark. The benchmark(s) does/do not take into account the environmental and social characteristics or sustainable objective (as relevant) of the fund. Please see appendix III of the fund's prospectus for further details. **2022 calendar year performance not available at time of publishing, please see the December factsheet.

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

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.

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

Concentration risk: The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

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.

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

Currency risk / hedged shareclass: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Derivatives risk: Derivatives may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.

IBOR risk: 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.

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.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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

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.

Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.