

# Schroders

## Schroder Global Core Fund

### Wholesale Class

#### Monthly Report – May 2020

## Overview

**Fund objective** To outperform the MSCI World ex Australia ex Tobacco Index (net dividends reinvested) over the long term across a broad range of market environments with limited index-relative risk.

- Key features**
- The Fund provides the benefits of index-based investing from a risk and cost perspective with the advantage of relative performance upside potential but low index-relative risk.
  - Stock selection is based on valuation and business quality. The combination of Value and Quality strategies provides risk and return diversifying characteristics and tends to deliver investment returns at different stages of the economic cycle, offering investors the potential for outperformance across a broad range of market environments.
  - The Fund explores an exceptionally broad investment universe to maximise the opportunity set and provides a high level of diversification within the index-relative limits.

## Performance to 31 May 2020

### Relative to MSCI World ex Australia ex Tobacco Index

Performance – Calendar years	Total returns (AUD %)	2020 YTD	2019	2018	2017	2016	2015	2014	2013	2012
Fund (Gross)		-3.80	+25.81	+1.07	+10.95	+10.63	+11.83	+14.81	+48.43	+14.62
MSCI World ex Aus ex Tobacco <sup>^</sup>		-2.47	+27.91	+1.52	+13.38	+7.92	+11.80	+15.01	+48.03	+14.14
Excess (Gross)		-1.34	-2.10	-0.45	-2.43	+2.71	+0.03	-0.20	+0.40	+0.48
Fund (Net)		-3.96	+25.31	+0.67	+10.51	+10.19	+11.38	+14.35	+47.84	+14.16
Excess (Net)		-1.50	-2.60	-0.85	-2.87	+2.27	-0.41	-0.65	-0.19	+0.02

Performance – Rolling periods	Total returns (AUD %)	1 month	3 mths	FYTD	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	SI p.a.*	SI cum*
Fund (Gross)		+2.54	-2.01	+4.68	+10.05	+8.92	+8.40	+11.99	+7.43	+252.58
MSCI World ex Aus ex Tobacco <sup>^</sup>		+3.44	-1.74	+6.36	+11.97	+10.19	+9.03	+12.01	+6.83	+219.64
Excess (Gross)		-0.91	-0.28	-1.68	-1.92	-1.27	-0.63	-0.02	+0.60	+32.95
Fund (Net)		+2.50	-2.11	+4.30	+9.61	+8.48	+7.97	+11.54	+6.83	+219.70
Excess (Net)		-0.94	-0.37	-2.07	-2.36	-1.70	-1.06	-0.47	+0.00	+0.06

Past performance is not a reliable indicator of future performance. The difference between the fund and benchmark returns may not equal stated excess returns due to rounding. \*Since inception from 31 October 2002. <sup>^</sup>The benchmark is MSCI World ex Australia from 31 October 2002 to 31 October 2019, and MSCI World ex Australia ex Tobacco Index thereafter.

## Fund characteristics as at 31 May 2020

	Fund	MSCI World ex Australia ex Tobacco Index
Active share	52.3%	N/A
Number of stocks	428	1,562
Carbon intensity (CO2 t/M\$ sales)	70.1	155.4
Beta* (ex-ante)	0.95	N/A
Tracking error* (ex-ante, p.a.)	1.49%	N/A

Source: Schroders. \*Based on Aladdin's risk system.

# Schroders

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Monthly Report – May 2020

## Market and fund commentary

### Market review

Global equity markets continued to bounce back in May from the COVID-19 inspired sharp selloff as lockdown measures began to be lifted and further support measures were announced. The MSCI World Index gained 4.4% in USD terms, up 35% from the late March low but still 8.2% down on the year. US Technology stocks continued to lead, although there was greater dispersion among the mega-cap multi-year winners than has been the case of late. In particular, the more advertising sensitive Alphabet and Facebook outperformed alongside Apple, whilst the other “anointed” stocks such as Microsoft and Amazon consolidated their recent gains.

With optimism about a V-shaped recovery building, the best performing stocks were those most geared into the economic cycle, such as industrials (e.g. building products, air freight, machinery) and consumer discretionary (e.g. leisure, retail, auto components). The materials sector also outperformed on the back of an improvement in precious and industrial metals. Energy stocks lagged behind despite oil recovering by 40% (Brent); prices are still more than a third below their value at the start of 2020 and the energy sector remains the weakest performer year to date (-35%). The improvement in optimism was also not shared by financials, particularly banks and insurers, which is perhaps indicative of a more deep-seated concern about the state of a post COVID-19 world.

Regionally, UK equities were the worst performing major developed market, in part due to sterling weakness on new concerns about the slow progress in BREXIT negotiations with the EU. Hong Kong was another notable underperformer as a new national security law was proposed.

### Fund commentary

Global Core underperformed the benchmark in May. The main headwind came from stock selection within US technology, which was the standout performer in markets during the month. Underweight positions in expensive US business software companies such as Twilio, Salesforce and ServiceNow all weighed modestly on returns.

Within communication services, our longstanding overweight position in preferred wireless telecommunications such as KDDI Corp and NTT Docomo also weighed on returns as the Japanese communication services sector lagged due to investors favouring more cyclical stocks.

Elsewhere in the defensive sectors, overweight health care positions in attractively valued and high quality US (e.g. Amgen, Johnson & Johnson and Pfizer) and Continental European (e.g. Roche and Novartis) pharmaceutical companies and, to a lesser extent health equipment, also weighed on returns. These areas have however been some of the best performers over the year.

With optimism about a swift economic recovery building, the best performing stocks were those most geared into the cycle such as industrials (e.g. building products, air freight, machinery) and consumer discretionary (e.g. leisure, retail, auto components). This improved optimism was however not shared by financials, particularly banks and insurers, perhaps indicative of a more deep-seated concern about the state of a post COVID-19 world. Against this backdrop, overweight positions, particularly in attractively valued US banks and life & health insurers detracted.

Stock selection was broadly flat within the materials sector which outperformed on the back of an improvement in precious and industrial metals with the Fund benefitting from positions in the gold and mining industries in the US and UK.

Finally, our longstanding aversion to the naïve bond proxy sectors (US real estate and utilities), an area of the market which we deem overpriced given their weak fundamentals (many are highly leveraged), proved beneficial, particularly within US real estate which significantly lagged the broader market.

## Market and fund commentary (continued)

One of the strategy's most significant exposures continues to be in health care, particularly pharmaceuticals, which is a good example of an industry offering both value and quality. We also retain a higher than index allocation to technology and find a breadth of opportunities in industrials. Within technology, our preference remains in the IT services industry where we find overlooked high quality "old-school" companies with strong balance sheets, compelling profitability and undemanding valuations. Commercial services, transport and electrical equipment are the preferred industries within the industrials sector due to their attractive quality characteristics, in particular profitability and financial strength. Most of the portfolio holdings within the sector also screen attractively on operating stability measures.

We had a neutral position in the consumer staples sector and are rather selective on a stock-by-stock basis. In particular, we continue to focus on the quality spectrum by avoiding financially impaired retailers and maintain a preference for more stable and profitable home product companies. Elsewhere, we maintain our longstanding underweight in the utilities and real estate sectors, as these companies remain highly leveraged and unattractive from a valuation perspective.

On a regional basis, we remain overweight the UK, which offers a broad range of attractive value opportunities, funded by our underweight positions in the US, which we deem as a more expensive area.

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## Schroder Global Core Fund

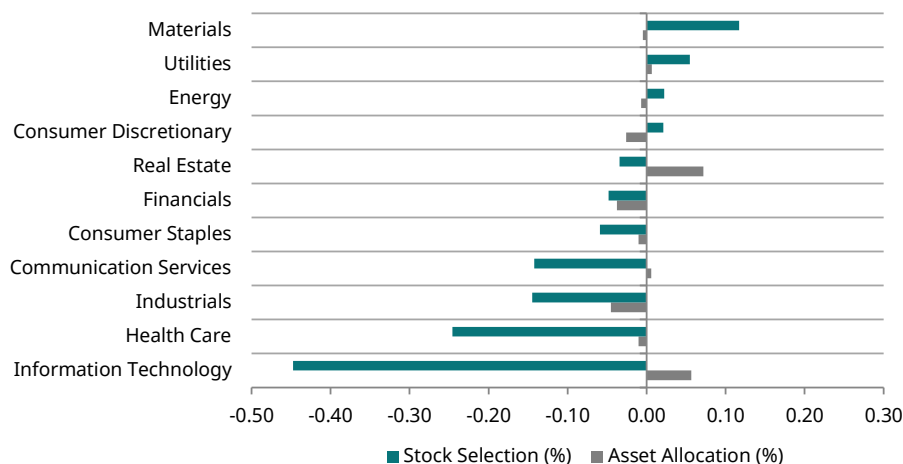
### Wholesale Class

Monthly Report – May 2020

## Attribution against MSCI World ex Australia ex Tobacco Index

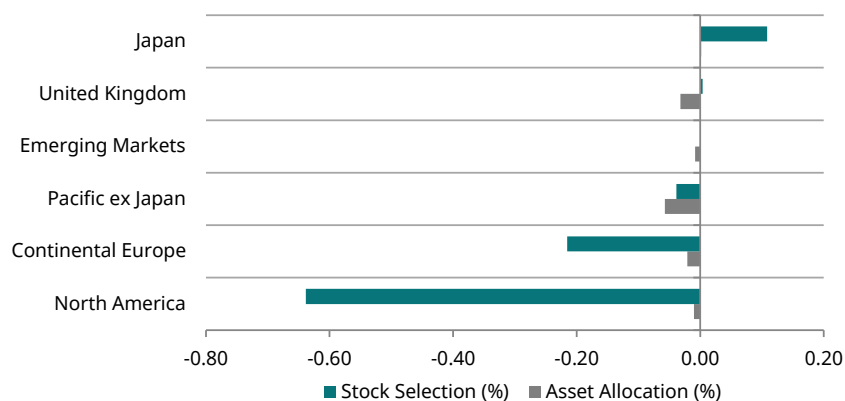
### Sector

May 2020



### Region

May 2020



The attribution analysis shown above is intended to provide an indicative summary of the contributions to relative performance. The information is generated using Factset, a multi-currency performance analytical system. The total estimated sector and region performance attribution is reconciled with and adjusted to the reported official relative return.

## Fund details as at 31 May 2020

Fund size	A\$232m
APIR code	SCH0003AU
Redemption price	0.7045
Inception date	31 October 2002
Buy/Sell spread	0.15%/0.10%
Distribution frequency	Normally twice yearly – June and Dec
Management costs	0.40%

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## Schroder Global Core Fund

### Wholesale Class

Monthly Report – May 2020

## Fund weights versus MSCI World ex Australia ex Tobacco Index

### Sector

As at  
31 May 2020

Fund (%)	Index (%)	Active Weights
23.0	20.9	Information Technology 2.1
16.5	14.5	Health Care 2.0
10.6	9.6	Communication Services 1.1
6.7	6.0	Insurers & Asset Mgt 0.7
6.8	6.3	Banks 0.5
3.8	3.4	Energy 0.4
8.3	8.0	Consumer Staples 0.3
3.3	3.9	Materials -0.6
2.4	3.5	Utilities -1.1
1.1	2.7	Real Estate -1.6
9.3	11.2	Consumer Discretionary -1.9
7.4	10.0	Industrials -2.5
0.8	0.0	Cash 0.8

### Region

As at  
31 May 2020

Fund (%)	Index (%)	Active Weights
2.6	0.0	Emerging Markets 2.5
5.4	4.4	United Kingdom 1.0
1.6	1.5	Pacific ex Japan 0.1
7.9	8.3	Japan -0.4
68.4	70.2	North America -1.7
13.2	15.5	Continental Europe -2.3
0.8	0.0	Cash 0.8

### Size

As at  
31 May 2020

Fund (%)	Index (%)	Active Weights
71.6	81.2	Mega -9.7
17.6	17.4	Large 0.2
8.7	1.2	Mid 7.5
1.0	0.0	Small 1.0
0.2	0.0	Micro 0.2

The difference between the fund and benchmark weights may not equal stated active weights due to rounding.

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