

Schroders

Schroder Global Blend Fund

Wholesale Class

Monthly Report – May 2019

Overview

Fund objective To generate long-term returns before fees in excess of traditional capitalisation weighted global equity indices through an actively managed blend of our Value and Quality equity strategies. The strategy is implemented via a single diversified portfolio of equity and equity related securities of companies worldwide excluding Australia.

Key features

- The advantages of both Value and Quality in one fund – strategic diversification from blending two distinct strategies which tend to outperform at different stages of the economic cycle.
- Embracing breadth – exploiting opportunities from more than 15,000 stocks globally.
- Consistent philosophies and index unconstrained approach.
- More efficient implementation and risk management in a single fund as opposed to a fund of fund structure.

Performance to 31 May 2019

Relative to MSCI All Country World ex Australia Index

Performance – Calendar years	Total returns (AUD %)	2019 YTD	2018	2017	2016	2015	2014	2013	2012	2011
Fund (Gross)		+9.22	-1.37	+11.16	+11.33	+8.66	+13.36	+46.29	+14.51	-7.04
MSCI AC World ex Australia		+10.74	+0.71	+14.86	+8.29	+10.04	+14.10	+43.24	+14.48	-7.24
Excess (Gross)		-1.52	-2.08	-3.70	+3.04	-1.39	-0.74	+3.05	+0.02	+0.20
Fund (Net)		+8.78	-2.33	+10.08	+10.25	+7.60	+12.19	+44.72	+13.28	-8.03
Excess (Net)		-1.96	-3.04	-4.78	+1.96	-2.44	-1.91	+1.49	-1.20	-0.79

Performance – Rolling periods	Total returns (AUD %)	1 month	3 mths	FYTD	1 Year	3 Years p.a.	5 Years p.a.	SI p.a.*	SI cum*
Fund (Gross)		-4.23	-0.29	+5.19	+6.47	+8.71	+10.42	+11.23	+174.45
MSCI AC World ex Australia		-4.58	+1.02	+5.79	+7.71	+10.70	+11.73	+10.97	+168.27
Excess (Gross)		+0.35	-1.31	-0.60	-1.23	-1.99	-1.31	+0.27	+6.17
Fund (Net)		-4.31	-0.53	+4.25	+5.44	+7.65	+9.34	+10.10	+149.02
Excess (Net)		+0.27	-1.55	-1.53	-2.27	-3.04	-2.38	-0.87	-19.26

Relative to MSCI World ex Australia Index

Performance – Calendar year	Total returns (AUD %)	2019 YTD	2018	2017	2016	2015	2014	2013	2012	2011
Fund (Gross)		+9.22	-1.37	+11.16	+11.33	+8.66	+13.36	+46.29	+14.51	-7.04
MSCI World ex Australia		+11.42	+1.52	+13.38	+7.92	+11.80	+15.01	+48.03	+14.14	-5.34
Excess (Gross)		-2.20	-2.89	-2.22	+3.42	-3.14	-1.65	-1.74	+0.36	-1.70
Fund (Net)		+8.78	-2.33	+10.08	+10.25	+7.60	+12.19	+44.72	+13.28	-8.03
Excess (Net)		-2.64	-3.85	-3.30	+2.33	-4.19	-2.81	-3.30	-0.86	-2.69

Performance – Rolling periods	Total returns (AUD %)	1 month	3 mths	FYTD	1 Year	3 Years p.a.	5 Years p.a.	SI p.a.*	SI cum*
Fund (Gross)		-4.23	-0.29	+5.19	+6.47	+8.71	+10.42	+11.23	+174.45
MSCI World ex Australia		-4.43	+1.42	+6.34	+8.82	+10.63	+12.19	+11.70	+185.48
Excess (Gross)		+0.20	-1.70	-1.15	-2.34	-1.92	-1.77	-0.46	-11.04
Fund (Net)		-4.31	-0.53	+4.25	+5.44	+7.65	+9.34	+10.10	+149.02
Excess (Net)		+0.12	-1.95	-2.09	-3.38	-2.98	-2.84	-1.60	-36.46

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 8 December 2009.

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Market and fund commentary

Market review

Global equities suffered their worst month of the year in May as investors reacted to a re-escalation in tensions between the US and China at a time of mounting concerns surrounding the prospects for global growth. The MSCI All Country World Index declined by 5.9% in USD terms, its first monthly decline in 2019 and its weakest performance since the sell-off in global equity markets late last year. The main beneficiaries of rising risk aversion were the bond market and a firmer US dollar, which reached its highest level since 2017. The US 10-year treasury yield declined to 2.1%, its lowest in a year and a full percentage point below where it was in September 2018. Defensively focused sectors such as utilities and real estate, which are also regarded as bond surrogates, were the best performing areas, although still declined in absolute terms. At the other end of the league table were areas more sensitive to a potential economic downturn such as resources, reinforced by weakness in commodity prices, and technology stocks. Many of the market's prior darlings, stocks such as Amazon and Netflix, lagged behind, albeit modestly, but the brunt of the selling pressure was observed in those stocks most closely related to the economic cycle or new technology restrictions, such as semi-conductors (Nvidia fell by more than 25%) or auto related stocks which are potentially facing higher tariffs. Despite the weakness in some of the so-called growth stocks, the MSCI ACWI Growth index still outperformed its Value counterpart in May, in part due to the large representation of financials and resources in the latter. Year to date, the Value index is more than 6% behind Growth.

Fund commentary

Against the backdrop of a volatile month, the Global Blend Fund (Hedged) ended the month slightly ahead of the reference indices. Our holdings in healthcare (e.g. Novartis) and communication services (particularly Japanese telecoms such as NTT Docomo) was helpful, as was our avoidance of many of the popular but relatively expensive stocks (e.g. Apple) and cyclical areas such as semi-conductors. This was, however, offset by our positions in financials and US industrials which are high quality and very affordable but were impacted by the trade war rhetoric. Finally, being underweight the bond-proxy sectors, utilities and real estate, was also detrimental during the month.

We continue to find attractively valued and high quality opportunities across the market. The strategy's most significant exposures remain in technology, industrials, healthcare and financials. Within technology and industrials, we maintain a broad exposure, especially in IT services, business software and machinery industries.

Attractive valuations remain across a range of high quality companies in the more defensive areas of the market, with utilities being the key exception. Our exposure in healthcare is primarily to pharmaceutical companies, while in telecoms we have a particular focus on integrated companies and mainly in developed Asia. We maintain a low exposure to utilities and real estate, particularly in the US.

In financials, we aim to take advantage of opportunities across the quality spectrum. We believe deep value remains within some European and Asian banks. At the other end, we continue to see high quality companies trading at what we view as very attractive valuations, particularly life and health insurers in the US and UK. Within resources, we retain our overall preference for strong balance sheets and have identified opportunities in miners, integrated-oil and chemical companies globally.

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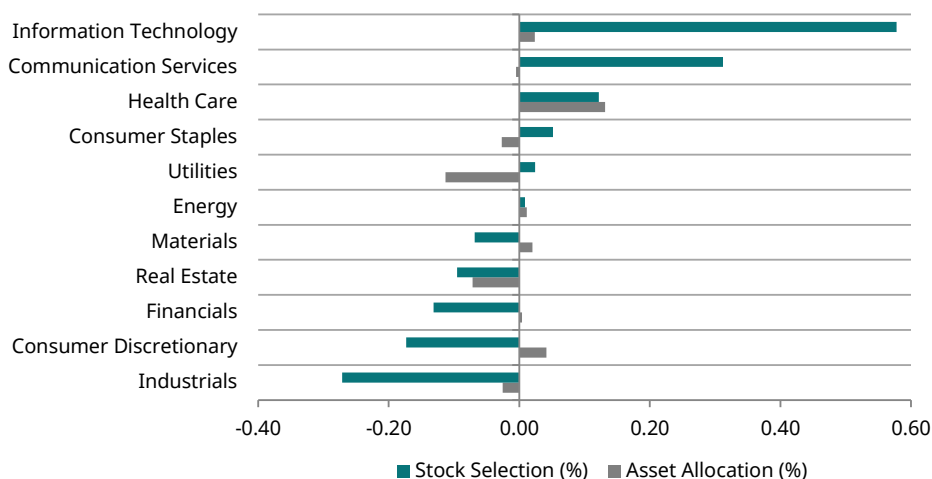
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Attribution against MSCI All Country World ex Australia Index

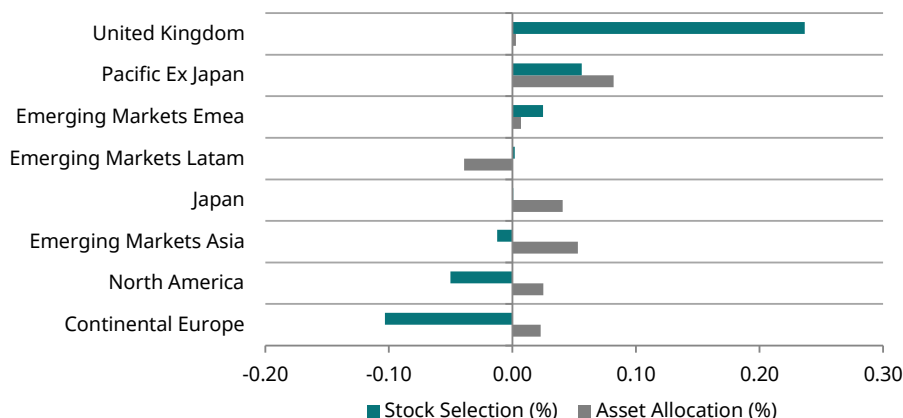
Sector

May 2019



Region

May 2019



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 2019

Fund size	A\$430m
APIR code	SCH0040AU
Redemption price	1.1452
Inception date	8 December 2009
Buy/Sell spread	0.20%/0.15%
Distribution frequency	Normally twice yearly – June and Dec
Management costs	0.98%

Fund characteristics as at 31 May 2019

	Fund	MSCI All Country World ex Australia Index
Active share	78.2%	N/A
Number of stocks	413	2,782

Source: Schroders

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Fund weights versus MSCI All Country World ex Australia Index

Sector	Fund (%)	Index (%)	Active Weights
As at	16.3	10.4	
31 May 2019	15.5	11.3	
	8.2	6.5	Industrials 5.9
	17.0	16.2	Health Care 4.1
	5.5	6.0	Insurance & Asset Manager 1.8
	9.9	10.7	Information Technology 0.8
	8.8	9.9	Energy -0.5
	7.4	8.7	Consumer Discretionary -0.8
	2.6	4.2	Banks -1.1
	1.5	3.1	Consumer Staples -1.3
	0.7	3.3	Materials -1.6
	5.6	9.5	Real Estate -1.6
	1.0	0.0	Utilities -2.6
			Communication Services -3.9
			Cash 1.0

Region	Fund (%)	Index (%)	Active Weights
As at	19.0	14.2	
31 May 2019	8.6	5.2	Continental Europe 4.8
	9.4	7.4	United Kingdom 3.4
	1.2	1.7	Japan 2.0
	7.9	12.3	Pacific ex Japan -0.5
	52.9	59.2	Emerging Markets -4.4
	1.0	0.0	North America -6.3
			Cash 1.0

Size	Fund (%)	Index (%)	Active Weights
As at	53.5	76.7	
31 May 2019	31.0	20.6	Mega -23.2
	12.6	2.5	Large 10.3
	1.9	0.0	Mid 10.2
	0.1	0.0	Small 1.9
			Micro 0.1

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

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