

Schroder ISF* Global Equity Yield

Fund Managers: Simon Adler, Liam Nunn, Nick Kirrage | Fund update: October 2021

Performance overview

- Global equities gained in October.
- The fund underperformed the MSCI World index.

Drivers of fund performance

- The fund underperformed the target index in September. **IBM** was among the main individual detractors from relative performance. The market appears frustrated that IBM's investment into growth areas (cloud infrastructure, big data, AI etc) has not translated into meaningful top line expansion. IBM is spinning off its IT services business Kyndryl in a move that should simplify the business and allow IBM to focus on a smaller number of priorities (the spin-off was completed in early November).
- Also within IT, our position in **Intel** was a detractor. Demand for semiconductors remains extremely strong but chipmakers are having to invest in new capacity to fulfil that demand, as well as reshoring some capacity away from Asia.
- Telecoms firm **BT Group** also weighed on fund performance. BT remains in the process of transformation and is cutting costs. It faces potential challenges to its UK market dominance in broadband as rival Virgin Media O2 plans to expand.
- Money transfer service **Western Union** was also among the main detractors.
- On the positive side, emerging markets focused bank **Standard Chartered** added value, as did **HSBC**.

Portfolio activity

- We exited the position in UK supermarket **WM Morrison** after takeover interest in the company culminated in an auction between rival bidders Fortress Investment Group and Clayton, Dubilier & Rice. UK-listed companies have been taken private at an average premium of 47% this year, which is well above the long-term average according to data from Refinitiv. Clayton, Dubilier & Rice's final offer for Morrison was at a 61% premium to the undisturbed share price. M&A tends to be a double-edged sword for value investors, and unlike some of our peers we do not believe it is a meaningful contributor to performance. The reason is that M&A tends to take businesses out lower than our fair value. This was the case with Morrison, although we acknowledge that a takeover can (partially) realise upside ahead of our expected investment horizon.

Calendar year performance (%)

Year	Fund	Target	Comp. 1	Comp. 2
2020	-6.1	15.9	-1.2	4.6
2019	16.5	27.7	21.7	21.7
2018	-11.0	-8.7	-10.8	-11.4
2017	22.1	22.4	17.1	18.8
2016	12.1	7.5	12.3	5.6

Source: Schroders, as at 31 December 2020. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares USD. Please see factsheet for other share classes. The target benchmark is MSCI World NR index, comparator 1 is MSCI World Value NR USD and comparator 2 is Morningstar Global Income Equity sector.

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

- 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.
- Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- Currency risk: The fund may lose value as a result of movements in foreign exchange rates.
- Derivatives risk – Efficient Portfolio Management and Investment Purposes: Derivatives may be used to manage the portfolio efficiently. 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.
- Stock Connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.
- Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- 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.
- 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.
- IBOR: 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.

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