Schroders

Marketing material for professional clients only

Schroder ISF* US Large Cap

Fund Manager: Frank Thormann | Fund update: Q4 2022

Performance overview

- US equities made robust gains in Q4, with much of the progress made in November. Investors balanced ongoing caution from the Federal Reserve (Fed) with indications that the pace of policy tightening would slow, and signs that elevated inflation could be cooling. There were also especially strong corporate earnings in certain sectors.
- The fund posted a positive return and outperformed the S&P 500 in the fourth quarter.

Drivers of fund performance

- Stock selection was positive, particularly in information technology, consumer discretionary and consumer staples. Conversely, our holdings in industrials, financials and communication services detracted in the fourth quarter.
- Our allocations to **Merck & Co**, **Eog Resources** and **Booking Holdings** were among the biggest individual contributors in the fourth quarter. Allocations to **ConocoPhillips** and **Mastercard** also added value in the quarter.
- Our zero-weight allocations to Tesla and Meta Platforms also contributed in the fourth quarter.
- **Alphabet**, **East West Bancorp** and **Medtronic** were among the biggest individual detractors in the fourth quarter. Allocations to **First Republic Bank**, **Salesforce** and **Bristol-Myers Squibb** also detracted in the quarter.
- Zero-weight allocations to Exxon Mobil, Chevron, Nvidia and Berkshire Hathaway also detracted in the fourth quarter.

Portfolio activity:

- We initiated a new position in **Eli Lilly** within healthcare. The company has been extremely innovative in areas such as obesity and is now gaining market share with its diabetes drugs. This is a massive market, and the company has the potential to be the market leader.
- We initiated a new position in **Micron Technology**. This is one of the few areas of technology where things will start to improve in 2023 and believe there is a positive growth gap opening up.
- We sold our holding in **First Republic Bank** in the fourth quarter. The company's margins are being squeezed as a result of its slow repricing of new mortgage loans relative to the higher interest rates being paid in its existing deposit accounts. We believe the short-term pressure will continue to weigh on earnings and exited the position in favour of a more attractive alternative.

Outlook/positioning

- The outlook for equities remains challenged amidst increased headwinds from geopolitical tensions, liquidity, inflation, margins and ultimately earnings.
- Oil and gas prices remain elevated, further complicating the inflationary picture for consumers and policymakers.
- Against this uncertain backdrop, we maintain a balanced approach and remain focused on companies that have strong pricing power that can pass through rising costs.

Calendar year performance (%)*

	Fund Net	Standard & Poor's 500 Net TR Lagged
2021	28.9	29.3
2020	19.6	17.3
2019	24.9	31.4
2018	-6.6	-6.2

*Schroder International Selection Fund is referred to as Schroder ISF throughout

2017	19.4	21.2
2016	7.1	10.7
2015	-0.8	0.7
2014	12.8	14.6
2013	32.1	33.2
2012	14.9	12.8

Source: Schroders, net of fees, bid-bid, with net income reinvested. A Acc share class as at 31 December 2021. The Fund's performance should be assessed against its target benchmark, being to exceed the Standard & Poors 500 (Net TR) Lagged 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

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.

– **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.

– **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.

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

– **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.

Important information

Marketing material for professional clients only

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus.

Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time, but we will publish our intention to do so on our website, in line with applicable regulatory requirements.

For Luxembourg, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders. For the UK, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

This fund does not have the objective of sustainable investment or binding environmental or social characteristics as defined by Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). Any references to the integration of sustainability considerations are made in relation to the processes of the investment manager or the Schroders Group and are not specific to the fund

Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy.

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 amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

Information herein is believed to be reliable, but Schroders does not warrant its completeness or accuracy.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy/ or on request should you not have access to this webpage.

A summary of investor rights may be obtained from https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/

For your security, communications may be recorded or monitored. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799.

Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.

Information for Switzerland: Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative.