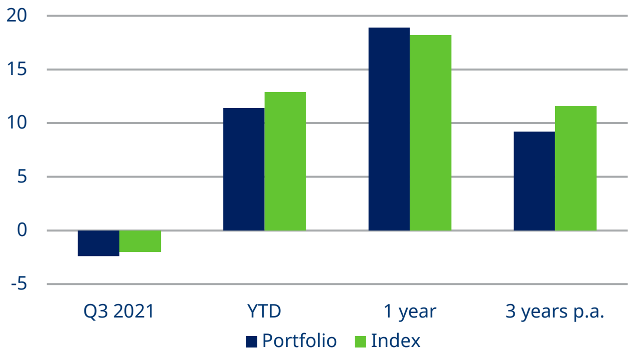
Schroder ISF* Swiss Equity
Quarterly Fund Update
Third quarter 2021

Returns to 30 September 2021 (%)

A accumulation shares
CHF returns



Source: Schroders, net of fees with net income reinvested, as at 30 September 2021.

	Q3 2021	YTD	1 year	3 years p.a.
Schroder ISF Swiss Equity A Acc	-2.4	11.4	18.9	9.2
Swiss Performance Index SPI	-2.0	12.9	18.2	11.6

Source: Schroders, net of fees with net income reinvested, as at 30 September 2021.

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.

Calendar year returns (%)

	Fund	Index
2020	4.3	3.8
2019	25.5	30.6
2018	-12.3	-8.6
2017	18.3	19.9
2016	1.5	-1.4
2015	2.5	2.7

Source: Schroders, net of fees with net income reinvested, as at 30 September 2021.

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

Summary

The Schroder ISF Swiss Equity fund returned -2.4% in the third quarter of 2021, -0.4% behind of the benchmark SPI which decreased by -2.0%. Over one year, the fund outperformed its benchmark by +0.7%, returning +18.9%.

The MSCI World reported in Q3 an increase of +1.0%, the S&P500 gained +1.5% and and MSCI Europe decreased by -0.6% (all measured in CHF). Another positive earnings season lifted stocks in the run up to August. However, growth and inflation concerns late in the quarter erased prior gains. Worries over supply chain bottlenecks and rising energy prices remain elevated. Expectations of a tapering from the Fed are also rising.

In Switzerland, small & mid caps (SPIEX) returned -0.4% and outperformed the large cap segment (SMI TR) by +2.0%. We saw a partial reversal of sector and style leadership with an outperformance of value sectors towards the end of the quarter. In terms of sector leadership, utilities and communication services outperformed the market.

During the quarter under review, we added a new position in Lonza. We increased our positions in Arytza, Idorsia, Oerlikon, Logitech and SoftwareOne. On the other hand, we reduced our positions in Swiss Life, UBS, Galenica and Sulzer. We entirely sold our position in Swiss Reinsurance. Medmix has been added to our portfolio as a spin-off from Sulzer at the end of September.

Portfolio characteristics

Fund manager	Daniel Lenz
Managed fund since	01 January 2008
Fund launch date	18 December 1995
Fund benchmark	Swiss Performance Index
Fund size	CHF 242.2mn
Annual management fee	1.25% p.a.
Ongoing charge	1.59% p.a.
Number of stocks in fund	51
Fund base currency	CHF
ISIN	LU0106244287
Bloomberg Ticker	SCHSWAA LX
Swiss security number	1034644

Source: Schroders, as at 30 September 2021

Economic environment

Despite the increasing worries on inflation risks, we remain optimistic about the outlook for the world economy. We leave our forecast for global GDP growth unchanged, expecting a growth of +5.9% for 2021 and +4.5% for 2022, but raising our inflation forecast. The strength of the rebound in demand has caught firms by surprise and supply chains are stretched with the consequence that inflation has picked up.

In Switzerland, the economic recovery is set to continue as expected, though growth is initially less dynamic than previously forecasted. The State Secretariat for Economic Affairs (SECO) has lowered its growth forecast for 2021 to 3.2 % (adjusted for sporting events). This is nonetheless significantly above average for the Swiss economy. In 2022, the growth rate is set to rise to 3.4 %.

Market environment

The MSCI World reported an increase of +1.0%, the S&P500 gained +1.5% and the Swiss Performance Index (SPI) lost -2.0% (all in CHF). Within Swiss equities, small and mid-caps (SPIEX) decreased by -0.4% while large caps (SMI Total Return) by -2.4%.

Within Swiss equities, Utilities (+3.8%), Communication Services (+2.9%), Financials (+1.8%) were among the best performing sectors. On the negative side Information Technology (-12.8%), Consumer Discretionary (-11.7%) and Materials (-5.6%) were among the laggards in the quarter under review.

Performance review

The Schroder ISF Swiss Equity fund returned -2.4% in the third quarter of 2021, -0.4% behind of the benchmark SPI which decreased by -2.0%. Over one year, the fund outperformed its benchmark by +0.7%, returning +18.9%.

Biggest positive contributors to relative performance were positions in Tecan, Zehnder, Swissquote, Orior, Belimo, Daetwyler and Swiss Life. Also positive were our zero weights in Holcim and Adecco as well as our structural underweight in Novartis.

Biggest detractor over the quarter were our positions in Logitech and Swatch. Logitech suffered along with other technology stocks due to increasing inflation and higher risk of an early tapering. Also negative was Swatch, which has lost in value as the Chinese government threatened to impose new regulations that would hurt the wealthy population in China. Additional negative impact came from our underweight in defensive growth stocks including Lonza, Alcon, Lindt & Sprüngli, Straumann and VAT Group.

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Risk considerations

The capital is not guaranteed.

The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the market.

Portfolio positioning as at 30 September 2021*

Sector	Relative weights
Industrials	6.6%
Financials	5.1%
Cons. Disc.	3.5%
Technology	2.6%
Utilities	0.9%
Cash	0.3%
Communication	0.2%
Basic Materials	0.1%
Real Estate	-1.3%
Cons. Staples	-8.9%
Healthcare	-9.1%

Source: Schroders, as at 30 September 2021.
*Data can differ from our factsheet due to different sources.

Top 10 overweights	Relative weight (%)
SIG Combibloc	2.3
Logitech	2.0
Orior	1.9
Swatch	1.8
Oerlikon	1.7
Daetwyler	1.7
Forbo	1.6
Zehnder	1.6
Schindler	1.5
Swiss Life	1.5

Top 10 underweights	Relative weight (%)
Nestlé	-9.4
Roche	-4.7
Lonza	-2.6
Novartis	-2.1
Holcim	-1.5
Lindt & Sprüngli	-1.4
Swiss Re	-1.4
Sika	-1.3
Alcon	-1.1
Straumann	-1.1

Key portfolio activity and positioning

In the quarter under review, we have used the recent market weakness to increase overweight positions, which have an unchanged positive outlook. These include **Aryzta**, **Idorsia**, **Logitech**, **Oerlikon** and **SoftwareOne**. Logitech's share price corrected substantially from its highs seen in June this year. Along with other technology stocks, Logitech suffered due to increasing inflation and higher risk of an early tapering. In addition, as a clear winner from the pandemic, Logitech is going to face a few quarters with limited growth perspectives due to a very high base. Mid-term, however, we see further upside potential; Logitech is well positioned and the stock is attractively valued after the recent correction.

In addition, we added a new position in Lonza to the portfolio but stay underweight compared with the benchmark. **Medmix** has been added to our portfolio after its spin-off from Sulzer. Medmix is a global leader for high-precise delivery devices supplying health care, consumer and industrial end-markets. On the other hand, we took profits in **Swiss Life**, **UBS Galenica and Sulzer.** We reduced our position in **Sulzer** after the spin-off of Medmix as we think the re-rating is primarily done.

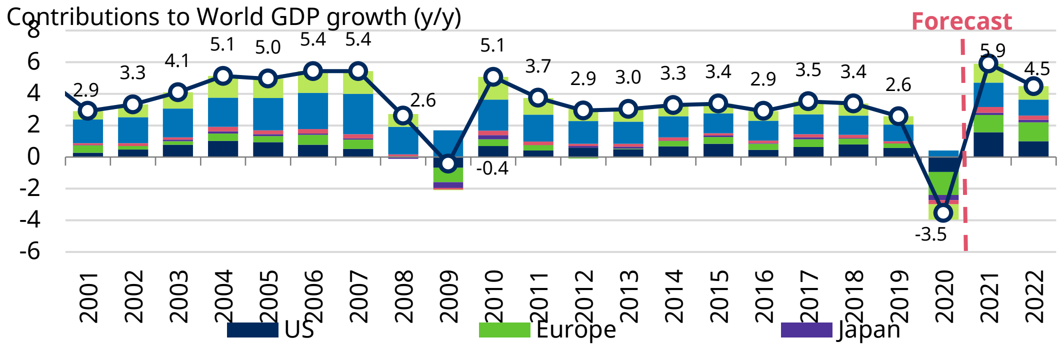
We entirely **sold** our position in **Swiss Re**. The earnings and dividend risk has increased due to the natural catastrophes in 2021. Additionally, the new Chairman, Sergio Ermotti, has not been noticeable to address weak areas such as leadership and strategy.

Outlook

The re-opening of the world economy continues and economic activity has picked up substantially. However, the strength of the rebound in demand has caught firms by surprise and supply chains are stretched with the consequence that inflation has picked up. We remain optimistic about the outlook for the world economy, but we leave our forecast for global growth unchanged and are raising our inflation forecast. This marks a change from the last 12 months where we had been consistently raising our growth forecasts. At the margin, the forecast has moved in a stagflationary direction as growth momentum fades and price pressures rise. The initial acceleration stage of the recovery is over and we are in a new phase where supply constraints are having a major impact on the cycle.

There are important regional variations in the growth forecast, with downgrades to the US and China offset by upgrades in Europe and Japan. European growth is expected to be ahead of the US in 2022, for the first time since 2007. In part, this is a timing issue, the consequence of extended lockdowns, a delay in vaccine distribution in Europe and Japan and a later catch-up. More fundamentally, though, fiscal stimulus and pent-up consumer demand have further to run in Europe.

Chart 1: Contributions to World GDP growth (y/y)

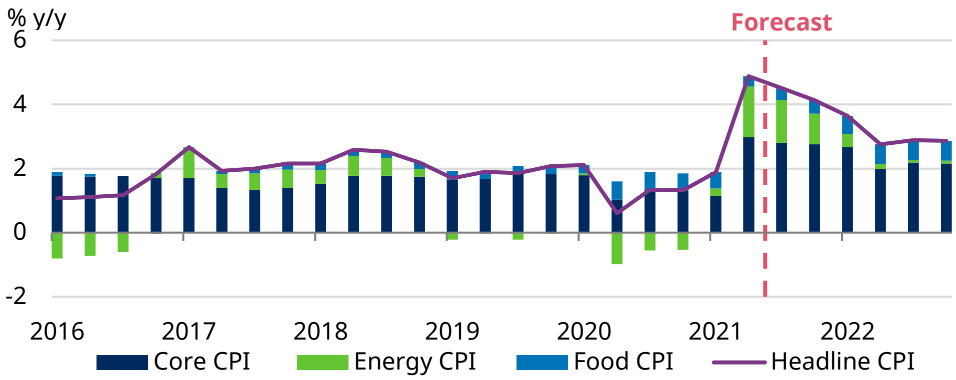


Source: Schroders Economics Group. 23 August 2021. Please note the forecast warning at the back of the document.

Delta variant is exacerbating the principal headwind facing the world economy. That is, a shortage of capacity where firms have run into bottlenecks and have had to ease back production for a lack of components, particularly semi-conductor chips. Order levels are high, but backlogs and delivery times are at record levels. The result has been an increase in prices as buyers chase scarce supplies. Production is also being constrained by a lack of labour. This may sound surprising at a time when unemployment rates are well above average, but the speed of re-opening combined with a lack of forthcoming applicants means many vacancies are going unfilled.

These factors account for much of the increase in our forecast for Inflation. In the US, we now expect inflation to come in at 3.8% this year and 3% next (increases of 0.5% and 0.7% respectively). We continue to expect inflation to ease in coming months as base effects pass through and the recovery pushes down unit wage costs. Core inflation (excluding food and energy) also eases as the jump in prices, which has accompanied re-opening fades. However, by the second half of next year the closing of the output gap means that underlying inflation picks up again and core inflation rises more broadly.

Chart 2: US inflation transitory, but to remain above pre-pandemic levels



Source: Schroder Economics Group, 23 August 2021.

All this confirms our view that we are about to enter a new area and that the regime of ultra-low interest rates will come to an end. Monetary stimuli will have to unwind, with recent developments rather sooner than later. With the Fed turning more hawkish all of this points to a more challenging period for investors with high volatility levels. Fiscal stimuli are still supportive. However, the sheer amount of fiscal spending during the Covid crisis is not sustainable of course. In the course of Q3 2021, we saw a partial reversal of sector and style leadership with an outperformance of value sectors. We expect this to continue, style and sector leadership will have to adapt to the new environment. While this style rotation will not happen in one go, we are convinced that our portfolio with our focus on quality, valuation and sustainability is well positioned to benefit from this evolution.