Marketing material for professional clients and qualified investors only

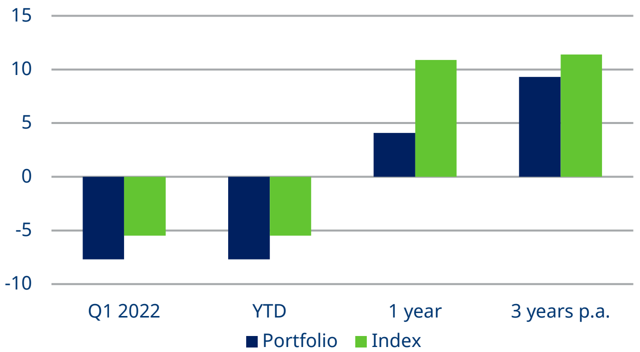
Schroder ISF* Swiss Equity

Quarterly Fund Update

First quarter 2022

Returns to 31 March 2022 (%)

A accumulation shares CHF returns



Source: Schroders, net of fees with net income reinvested, as at 31 March 2022.

	Q1 2022	YTD	1 year	3 years p.a.
Schroder ISF Swiss Equity A Acc	-7.7	-7.7	4.1	9.3
Swiss Performance Index SPI	-5.5	-5.5	10.9	11.4

Source: Schroders, net of fees with net income reinvested, as at 31 March 2022.

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
2021	20.4	23.4
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

Source: Schroders, net of fees with net income reinvested, as at 31 March 2022.

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

Summary

The Schroder ISF Swiss Equity was down -7.7% in the first quarter of 2022, underperforming the benchmark by -2.2%. Over one year, the fund returned +4.1%. Over three years, annualized performance stands at +9.3%, underpefroming the index -2.1% per annum. In the quarter under review relative performance suffered from the structural underweigh in Roche and Novartis (SICAV restriction) as well as from our overweight in small & mid caps.

Overall, stock markets suffered a steep decline until mid March, but recovered towards the end of quarter of 2022. Volatility spikes were observed at the end of January and early March due to higher than expected inflation and the escalation of the Russia-Ukraine conflict. As a consequence, markets discounted a deterioration of the economic outlook, now tilted towards a stagflationary environment.

The MSCI World lost -3.9%, slightly behind the S&P500 (-3.5%); the MSCI Europe declined -6.6% (all measured in CHF). In Switzerland, small & mid caps (SPIEX) declined by -10.2% and underperformed the large cap segment (SMI TR) by -5.9%.

During the first quarter of 2022, we increased industrial stocks Bucher, Geberit and VAT Group, in the healthcare sector Idorsia and Lonza, tech stocks Comet and Logitech as well as Nestlè, Partners Group and Sika. We reduced SIG Combibloc, Richemont, Orior, Helvetia, Swiss Life, Zurich Insurance, ABB, Belimo, Daetwyler, Schindler, SFS and ams. We entirely sold Vifor Pharma, Cembra and Credit Suisse.

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 231.3mn
Annual management fee	1.25% p.a.
Ongoing charge	1.59% p.a.
Number of stocks in fund	46
Fund base currency	CHF
ISIN	LU0106244287
Bloomberg Ticker	SCHSWAA LX
Swiss security number	1034644

Source: Schroders, as at 31 March 2022

Economic environment

The year began with worries over rising inflation, which together with a very tight job market, spurred fears over an excessive Central Banks' tightening. This was exacerbated by the economic consequences of Russia's invasion of Ukraine, which caused a spike in commodity prices, especially energy, which is putting high pressure on companies' margin.

In Switzerland, the State Secretariat of Economic Affairs (SECO) has adjusted growth expectations from 3.2% to 2.8% for 2022. For 2023, a growth of 2.0% is expected. Inflation is expected to increase from 0.6% in 2021 to 1.9% in 2022 (SECO 14.03.2022). Compared to other regions, inflation should stay substantially lower in Switzerland also as a result of the strong Swiss franc which is dampening the inflation impact from imports.

Market environment

Overall, stock markets suffered a steep declined until mid March, but recovered towards the end of quarter of 2022. Volatility spikes were observed at the end of January and early March due to higher than expected inflation and the escalation of the Russia-Ukraine conflict. As a consequence, markets discounted a deterioration of the economic outlook, now tilted towards a stagflationary environment.

The MSCI World lost -3.9%, slightly behind the S&P500 (-3.5%); the MSCI Europe declined -6.6% (all measured in CHF). In Switzerland, small & mid caps (SPIEX) declined by -10.2% and underperformed the large cap segment (SMI TR) by -5.9%.

Concerning the Swiss sector performance, communication services (+7.1), real estate (+2.5%) and financials (+1.2) were the only sectors in the positive territory. Technology (-16.9%), basic materials (-14.8%) and industrials (-14.5%) were the worst performing segments in the quarter under review.

Performance review

The Schroder ISF Swiss Equity was down -7.7% in the first quarter of 2022, underperforming the benchmark by -2.2%. Over one year, the fund returned +4.1%. Over three years, annualized performance stands at +9.3%, underperforming the index -2.1% per annum.

In the quarter under review relative performance suffered from the structural underweigh in Roche and Novartis (SICAV restriction) as well as from our overweight in small & mid caps.

Our security selection within the consumer staples sector contributed positively to the relative performance. This includes our overweight in Orior and underweight in Lindt & Sprüngli. Our underweights in Straumann, Sika and Lonza were also positive for the relative performance, together with our overweight in financial stocks Baloise, Zurich Insurance and Swiss Life.

On the negative side, our relative exposure to the health sector was a drag on performance, with underweights in Novartis and Roche and overweight in Tecan. Industrials also detracted from relative performance, with our overweight in Daetwyler, Oerlikon and Schindler.

Please note that 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

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 31 March 2022*

Sector	Relative weights
Industrials	4.7%
Cash	4.2%
Financials	4.1%
Technology	3.3%
Cons. Disc.	2.7%
Utilities	0.9%
Basic Materials	0.0%
Communication	-0.9%
Real Estate	-1.4%
Healthcare	-8.0%
Cons. Staples	-9.6%

Top 10 overweights	Relative weight (%)
Logitech	2.3
SIG Combibloc	2.1
Orior	1.9
Swissquote	1.6
Baloise	1.5
Daetwyler	1.5
Givaudan	1.3
Swiss Life	1.3
Zehnder	1.3
Partners Group	1.3

Top 10 underweights	Relative weight (%)
Nestlé	-10.0
Roche	-5.3
Lonza	-2.2
Novartis	-1.8
Holcim	-1.5
Swiss Re	-1.5
Lindt & Sprüngli	-1.4
Sika	-1.2
Credit Suisse	-1.1
Alcon	-1.0

Source: Schroders, as at 31 March 2022.
*Data can differ from our factsheet due to different sources.

Key portfolio activity and positioning

We used the market volatility to increase our position in stocks that have lost significantly in value. We increased industrial stocks Bucher, Geberit, and VAT Group, in the healthcare sector Idorsia and Lonza, tech stocks Comet and Logitech as well as Partners Group and Sika.

On the other hand, we divested from Vifor Pharma, Cembra and Credit Suisse. Vifor Pharma received a takeover offer from the Australian biotech company CSL. We sold Cembra as we see much more attractive potential in other financial stocks. Regarding Credit Suisse, further concerns arose about the quality and risk management of the bank.

We reduced SIG Combibloc, Richemont, Orior, Helvetia, Swiss Life, Zurich Insurance, ABB, Belimo, Daetwyler, Schindler, SFS and ams.

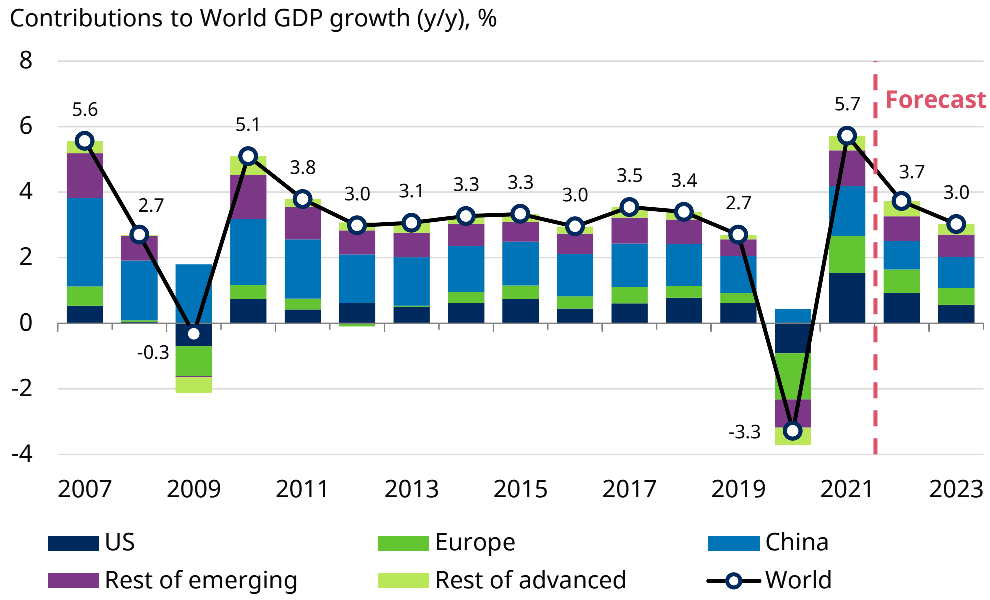
Outlook

Since Russia's invasion of Ukraine on 24 February, the pace of escalation has been rapid. Not only in terms of Russian actions, and their terrible impact on Ukrainian people, but also regarding the response from Western allies.

From a trade and finance perspective Russia is not significant enough to derail the world economy. However, the links through commodity prices are key and Russian aggression looks set to keep energy and food costs elevated. The fall in asset prices if sustained will also dampen global activity as will higher uncertainty. In this respect events in Ukraine add a further stagflationary twist to the outlook by pushing up inflation and weakening growth. The tightness of labour and product markets means that we were already heading in this direction.

We now expect global growth of 3.7% this year and CPI inflation coming in at 4.7%. In our previous forecast last November these figures were 4% and 3.8% respectively. Significant downgrades to the Eurozone and UK account for the weaker growth forecast whilst inflation is revised up across the board. We still expect pent up savings to provide a cushion for consumers against the increase in living costs to maintain spending and growth. An easing of supply chains and peaking in commodity price rises should also help ease inflation, as will a moderation and rebalancing in consumer demand as fiscal stimulus fades.

Despite the changes to the global forecast, the risks are still skewed toward stagflation either through a wage-price spiral or an even greater escalation of the Ukraine crisis. The chances of rising prices triggering another recession, as in earlier cycles, have clearly risen especially as central banks have limited room for manoeuvre given the high level of inflation and lack of economic slack.



Source: Schroders Economics Group. 25 February 2022. Please note the forecast warning at the back of the document.

In Switzerland, the State Secretariat of Economic Affairs (SECO) has adjusted growth expectations from 3.2% to 2.8% for 2022. For 2023, a growth of 2.0% is expected. Inflation is expected to increase from 0.6% in 2021 to 1.9% in 2022 (SECO 14.03.2022). Compared to other regions, inflation should stay substantially lower in Switzerland also as a result of the strong Swiss franc which is dampening the inflation impact from imports.

For equity markets, the elevated volatility seen in the first quarter was initially a result of higher than anticipated inflation and as a reaction a more hawkish communication of central banks, especially of the FED in the US. In late February and early March, markets suffered a second down leg caused by the invasion of Russia into the Ukraine. Markets recovered towards the end of the quarter from low levels. Given that the Ukraine crisis has increased inflationary pressure, the economic outlook has deteriorated. On the other hand, Covid-related restrictions cease, at least in the Western world, and supply chain issues are expected to slowly improve over the course of the year. As a result we continue to be optimistic for Swiss companies. They offer excellent quality – many companies have zero debt -, are geographically well diversified and are often leaders in their niche. Companies with such attributes overcome more difficult times much easier and come out of a crisis even stronger. There are large variances how companies have been affected by Covid-related restrictions and how they handled the more recent input price increases, supply bottlenecks and logistics challenges. For us as active managers, the dispersion on how companies handled the challenges together with stock price volatility always offers excellent buying opportunities. In line with our proven long term strategy, we have already started and will continue to add to stocks that have corrected excessively but offer high quality and have displayed good handling of the recent challenges.

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