Schroders

April 2023

Schroder Global Sustainable Equity (Wholesale Class)

Fund commentary

The strategy finished April behind the index as positive contributions failed to offset headwinds from positioning in better value areas and the continued resilience of the big tech stocks. As was the case during the first quarter, a lower exposure to the tech giants in the US was the largest single headwind for the strategy during the month. In the US especially, the market has been driven higher by the strong performance of the index heavyweights, whilst the average stock has essentially moved sideways. In addition, as commodity markets weakness continued, overweight holdings in the materials sector was another drag on returns in the month. In particular, deeper value exposure to chemicals, with holdings spread across specialist manufacturers including electric vehicle materials (i.e. lithium), was the main detractor.

Strong stock selection across consumer discretionary and defensive sectors helped offset some of the headwinds faced over the month. As defensives partially rebounded in April, our larger weight in high quality areas, including home products, drinks and pharmaceuticals all supported relative performance. Within consumer discretionary, our preferred holdings in both online and auto retailers also contributed positively, while avoiding weakness in mega cap Chinese online retail was beneficial as geopolitical tensions weighed on markets. Similarly, avoiding Tesla on its still premium valuation was beneficial as the company fell on lower prices and tighter profit margins.

At a high level, the strategy remains well diversified across stock, geography and sector with a continued focus on companies with solid fundamentals that are not overpriced in line with our underlying investment philosophy. Given the multiple inputs employed within our process, the strategy continues to be exposed to a range of themes and with a broad allocation across our distinct measures of Value & Quality.

At the end of the month, some of the largest overweights in the strategy were within technology, healthcare and consumer staples, driven by higher than index exposure to application software, pharmaceuticals and home products respectively. We continue to favour securities exhibiting high quality characteristics and at favourable valuations while maintaining diversification across the portfolio. The strategy continues to be underweight real estate and utilities which we view as highly leveraged and unappealing in valuation terms. From a regional perspective, the strategy is underweight to the US which is still more richly priced versus other developed and emerging markets. The US remains a source of funding for a broader overweight across Europe, the UK and Japan.

Market review

Global equities had a mixed month, with developed markets posting modest gains while emerging markets declined. In contrast with the opening months of the year, April saw lower levels of volatility, with markets mostly treading water against a backdrop of uncertainty due to ongoing concerns regarding the US banking sector. Still high inflation alongside concerns around slowing growth also hamstrung sentiment. A positive start to the US earnings season did however provide a more positive tailwind.

US economic data provided conflicting signals regarding inflationary pressures. While there have been some signs of a slowdown in economic activity, inflation remains well above central banks targets and elements of inflation remain sticky, creating a policy dilemma. Adding to the mixed data, the first quarter earnings season has so far been better than feared. This positive momentum supported risk assets despite further stress in the banking industry, with nine of the eleven sectors positive in April, some of the strongest being staples, communications, financials, and health care. In contrast, more cyclically-sensitive sectors such as technology, materials, consumer discretionary and industrials all took a breather. Mega cap growth names continued to perform well, most notably Meta, following a well-received earnings update.

Regionally, economic data in both the Eurozone and UK generally surprised to the upside, which, supported equity markets. All sectors in the Eurozone advanced during the month aside from information technology, driven by weakness in semis, with the top performing sectors including energy and real estate. Meanwhile, UK equities rose over the month. Financials were one of the top contributors, driven in large part by a relief rally in the banking sector while energy and consumer staple sectors also contributed, driven by globally diversified names.

Within emerging markets, geopolitical tensions weighed on Chinese equities. Adding to this, potential US investment regulations also meant that communication services and consumer discretionary stocks were particularly badly hit. This underperformance resulted in EM Asia being the worst performing regional equity market, with positive returns outside of Asia helping partially offset this.

Important Information

This document is issued by Schroder Investment Management Australia Limited (ABN 22 000 443 274, AFSL 226473) (**Schroders**).

This document does not contain and should not be taken as containing any financial product advice or financial product recommendations. This document does not take into consideration any recipient's objectives, financial situation or needs. Before making any decision relating to a Schroders fund, you should obtain and read a copy of the product disclosure statement available at www.schroders.com.au or other relevant disclosure document for that fund and consider the appropriateness of the fund to your objectives, financial situation and needs. All investments carry risk, and the repayment of capital and performance in any of the funds named in this document are not guaranteed by Schroders or any company in the Schroders Group. The material contained in this document is not intended to provide, and should not be relied on for accounting, legal or tax advice.

Schroders does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this document. To the maximum extent permitted by law, Schroders, every company in the Schroders plc group, and their respective directors, officers, employees, consultants and agents exclude all liability (however arising) for any direct or indirect loss or damage that may be suffered by the recipient or any other person in connection with this document.

Opinions, estimates and projections contained in this document reflect the opinions of the authors as at the date of this document and are subject to change without notice. "Forward-looking" information, such as forecasts or projections, are not guarantees of any future performance and there is no assurance that any forecast or projection will be realised. Past performance is not a reliable indicator of future performance. All references to securities, sectors, regions and/or countries are made for illustrative purposes only and are not to be construed as recommendations to buy, sell or hold.

Telephone calls and other electronic communications with Schroders representatives may be recorded.