Schroders

April 2023

Schroder Sustainable Global Core Fund (Wholesale Class)

Fund commentary

The strategy finished behind the benchmark in April. Positive contributions from a range of areas failed to completely offset headwinds from deeper value positions. In particular, as commodity markets weakness continued, overweight holdings in materials was a drag on returns. Deeper value exposure to chemicals, with holdings spread across specialist manufacturers including electric vehicle materials (i.e. lithium), was the main detractor. Our preferred holdings in US application software, an area we are overweight given the opportunity to buy structural growth characteristics at more reasonable multiples, was also a headwind as they gave up some of their gains from earlier in the year.

Offsetting this was broad based contributions from a range of sectors and themes. As defensives rebounded in April our larger weight in high quality defensives, including home products, drinks and pharmaceuticals all supported relative performance. Additionally, good stock selection in financials was also beneficial as our favoured banks outperformed in light of solid Q1 results.

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 overweight the UK and emerging markets. Elsewhere, we maintain an underweight exposure to the US, Continental Europe 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.

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