

Schroder ISF* Sustainable Multi-Asset Income

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Market Review

- Global equities posted solid gains in September, bolstered by resilient corporate earnings and the continued momentum in AI and technology sectors, particularly in the US. Investor sentiment was further buoyed by the first 25bps Federal Reserve (Fed) rate cut of the year.
- Emerging Market (EM) equities extended their year-to-date lead over their developed peers, led by index heavyweight China where returns are now over 40% year-to-date (MSCI China, USD). Beijing has been pushing to improve corporate governance at both state-owned enterprises and private companies, a strategy that is supplemented with targeted monetary and fiscal stimulus.
- Turning to bonds, the softening in US Treasuries yields provided a modest tailwind to rate-sensitive investment grade credit, where spreads have tightened to historic levels. High yield bonds were also positive, with Europe marginally outperforming the US.
- Emerging market debt gained, with hard currency also benefiting from moderating treasury yields, where continued weakness in the US dollar boosted local currency performance.
- Overall, bonds remained resilient, with spreads compressing and sentiment improving despite lingering macro uncertainties.

Drivers of Fund Performance

- A positive month for the fund, with returns driven by US equities which continued to ride the AI wave. European financials were also positive as Europe enters a new phase of growth, marked by fiscal stimulus and improving fundamentals. Bonds also made a useful contribution, led by higher-yielding names in Europe, and emerging market local denominated debt.

Portfolio Activity

- In terms of asset allocation, at the margin we added to our enhanced equity income strategy, and reduced exposure to alternatives by cutting insurance linked securities.

Outlook/positioning

- After a short hiatus, political risk is back on investors' radars. Most significantly, US and China trade tensions are flaring up again, as Trump's administration is taking the next steps to decouple the US from China dominated supply chains.
- At the same time, US economy continues to show signs of fraying at the ends. Lower income people have faced some challenges, and latest available data indicate that the labour market remains fragile. In addition, parts of the market that were expected to have the greatest tailwind from Fed rate cuts, mainly housing and companies with floating rate debt, have instead sharply underperformed.
- Outside these pockets of weakness, the AI story has continued to drive markets higher, although volatility is now picking up from summer lows.
- We retain a broad preference for non-US equity, alongside European credit, and select high-yielding emerging market local currency bonds.

Calendar year performance (%)

Year	Fund Net A Acc (%)	Fund Net C Acc (%)	Comparator (%)
2024	6.9	7.6	8.4
2023	10.8	9.2	11.7
2022	-13.8	-13.3	-15.5
2021	4.7	5.3	5.5
2020	-	-	-
2019	-	-	-
2018	-	-	-
2017	-	-	-
2016	-	-	-
2015	-	-	-
2014	-	-	-

Source: Schroders, Thomson Reuters, 31 December 2024, A Acc and C Acc share € class, net of fees. Please see factsheet for other share classes.

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The Fund's performance should be assessed against the income target of 3-5% per year and the volatility compared against 30% MSCI AC World index (hedged to EUR), 40% Barclays Global Aggregate Corporate Bond index (hedged to EUR) and 30% Barclays Global High Yield excl CMBS & EMG 2% index (hedged to EUR). The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the Investment Manager invests the Fund's assets.

Investment Objective

The fund aims to provide income and capital growth by investing in a diversified range of assets and markets worldwide which meet the Investment Manager's sustainability criteria.

Risk considerations

ABS and MBS risk: The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.

Bond Connect risk: The fund may be investing in the China Interbank Bond Market via the Bond Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

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.

Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates.

Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk meaning greater uncertainty of returns.

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, meaning investors may not be able to have immediate access to their holdings.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

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.

Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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