# Schroder ISF* Commodity Fund

## Fund update: May 2026

Marketing material for professional clients only.

### Objectives

i. **Outperform Bloomberg Commodity index²**

²The fund aims to provide capital growth in excess of the Bloomberg Commodity Total Return Index (BCOMTR Index) after fees have been deducted over a three to five year period by investing in commodity related instruments worldwide.

### Investment approach

**Active long only approach**. Occasional use of resource equities to enhance returns

Active positioning relative to benchmark based on comprehensive commodity research **combined** with global macro analysis

The investment process systematically follows four types of analysis: **fundamental, quantitative, technical and sentiment**

**Broad investment universe:** energy, metals and agriculture

**Risk controlled** by liquidity based tier limits and moderate use of cash

### Role in portfolios

**A core actively managed commodity exposure**

Can be **combined** with ETFs or other inflation protection strategies

## Current strategy

**I – Energy = Middle East conflict headlines continue to drive prices**

**The Strait of Hormuz remains the key and the status can change at any time**

– If the Strait re-opens and stays open oil prices can fall to the mid $70’s/bbl. But the longer the peace deal takes to materialise the higher the risk of sliding back to war with military activity on both sides picking up. A return to full conflict and prices can surge higher.

– US gas likely to be rangebound, but EU gas will be driven by Middle East developments.

**II – Metals = Still overweight both base and precious**

**Precious much more sensitive to Hormuz developments than base metals**

– In base metals we remain bullish aluminium in both an imminent re-opening or protracted stalemate Hormuz scenario. Copper macro thematic driven strength (“AI demand”, strategic hoarding, supply weakness) remains potent.

– Gold has been supressed by high oil and interest rates, which have driven investor selling and slowed central bank buying. A truce, lower oil/rates, and a weaker dollar could open up another explosive period for precious metals between now and November mid-terms.

**III – Agriculture = Weather stress and the fertiliser shock add to yield uncertainty across key crops**

**Energy security policies sustain biofuel demand for corn, soybean oil and sugar.**

– Drought in the US and patchy rainfall elsewhere is trimming confidence in 2026 output. Near-term rains may relieve stress, but recovery may be limited as strengthening El Niño adds further volatility into key growth phases.

– The Middle East conflict has lifted fertiliser and freight costs and accelerated biofuel programmes globally, driving demand for corn, soybean oil and sugar feedstocks. As more feedstocks are diverted into biofuel production and elevated input costs reduce fertiliser application intensity, the pool of tradeable supply looks set to tighten.

**Conclusions: A truce in the Iran war, could yet open up significant ex-oil upside in the commodity complex. Aluminium, precious metals, corn, cocoa and cotton remain our favoured expressions.**

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

## Fund review

Commodities as an asset class (as measured by the Bloomberg Commodity Total Return Index) declined 3.6% in May, with the energy sector leading the index lower, followed by agriculture. Metals rose slightly. The Schroder ISF Commodity Fund ended the period +1.6% ahead of the index bringing year-to-date outperformance to +2.0%.

The energy sector declined 8.9%, as optimism around the fragile ceasefire and the reopening of the Strait of Hormuz grew. At the individual commodity level, the funds' cautious positioning in crude oil and coffee and overweight positioning in Aluminium were amongst the top contributors to relative performance.

## Energy

– The conflict in the Middle East has been in the ceasefire stage for some weeks, but a peace deal has been elusive. It seems the bar for the US to return to full conflict is high and several military attacks by Iran in the region have not prompted a return to conditions we had in March where both sides were attacking each other constantly.

– If a "peace agreement" (or more likely 60-day extension deferring thornier parts of the negotiation) is reached in the early part of June, then oil prices are likely to fall sharply given the lower current demand and likely flood of oil out of the Strait. We still hold the view this is the outlook the Trump administration would like to engineer. We also believe pressure on Iran from key allies including China is likely intense. Risks around this are clearly high, however.

– Oil prices fell close to 10% in May and have since been in a 10% range. Over the next two to three weeks, it will take either an agreement or a return to war to break the range as the oil market has found a way to cope with the current loss of supply. But this calm is a mirage, the lost supply is being replaced by SPR releases from Japan and the US as well as a very sharp reduction in Chinese imports (also implying inventory draws).

– While this can continue for June and possibly July, beyond that the US SPR buffer and onshore inventories will likely be at very low levels. The US has sold much of the accessible oil left in the SPR on forward contracts so regardless of the status of the Strait by September the US SPR will be towards the lower end of operational levels. This has never happened before. Pre the Biden draw on the SPR, where 240million barrels were released to help manage inflation, the US SPR stood at 650mb-700mb. Post the current sales we will be close to 240mb. And the flow rate from the SPR will likely reduce from 1.4mb/d in June to 0.8mb/d in August, an indication of the reserve moving to low levels and being more difficult to access.

– Operational SPR minimums are estimated at 150mb to 200mb. The structure of the current sales means the buyers are obliged to refill the SPR with 20% more barrels than they bought. However, the first date they have to start refilling the SPR is Q4 2027. That means from September 2026 to end 2027 the US SPR will be less able to act as a buffer against supply loss or higher prices, a situation we have not seen since its creation.

– Many will argue that the US no longer needs an SPR as they are the largest oil producer in the world. That is true but both Biden and Trump have used the SPR to manage price pressures in the oil market and judging by the increase in US exports over the last 2 months it has been a useful tool in keeping prices lower than they would have been. That flexibility, from September, is all but gone. If that occurs, in an interesting piece of historical symmetry, the US SPR, set up in response to the 1973-74 Arab oil embargo, will have been exhausted by another Middle East crisis.

## Metals

– In base metals we remain bullish aluminium in either an imminent re-opening or protracted closure of the Straits of Hormuz scenario. Aluminium price performance, initially very strong, has been held back over the past month by elevated investor positioning and significantly weaker than expected Chinese micro data. The latter has stoked market fears of a sizeable Chinese supply response to higher prices.

– We continue to believe that balances are moving into sharp deficit and are firmly of the view that there will be no "China surge" in aluminium production. LME spreads, which have begun to meaningfully tighten, support that.

– In copper we are fundamentally neutral because we do not believe either 2026 or 2027 balances are in deficit. On prices we are more bullish. We think the market is likely setting up for another move higher in the event "risk markets" in general do not succumb to energy crisis stress (our base case).

– An on paper global copper surplus is almost all appearing in the US, incentivised by a Comex price premium over LME (and SHFE) driven by renewed expectations of potential tariffs on US copper imports. The view that US based copper inventories are de facto strategic stocks is widely held, including in China. Our view is this flow to the US will continue, more clarity on US policy should come post June 30th. Outside this, thematic bullishness on "AI" related demand and ongoing supply weakness are also supportive.

- In nickel we remain of the view that annual price highs are yet to be seen. The key factor (and key risk to that view) is Indonesian supply policy. For now, we hold the view that sharp curtailments to production (led by severe cuts to Weda Bay RKAB quotas) are yet to be fully reflected in the market.
- In precious metals we think gold and silver prices are approaching a window of potentially strong gains in the period between now and the November US mid-terms. Gold and gold producer equity prices have been under pressure from high oil / rising US short end rates (leading to investor selling) as well as March central bank selling (from Turkey mainly but also Azerbaijan). A truce, a resumption of the dollar downtrend and downward pressure on rates could propel prices sharply higher.
- In silver, we are struck by the persistence of China price premiums (SGE over London) that have led moves higher since last October's London lease rate spike. The combination of an ongoing Chinese bid combined with the broader positive setup for metals leads us to the view that silver could re-test recent highs before the year is out.
- Those views on gold and silver are essentially unchanged since last month. The main difference between base and precious metals is the likely reaction function to a more prolonged straits closure. On net, we think that would cause a further leg of precious metals underperformance in the short term. Threats to base metals supply (direct further threats to smelting production in aluminium and sulphur related threats to nickel and copper) would be more supportive of industrial metals.

## Agriculture

- The fundamental backdrop for soybean oil remains bullish as lingering Middle East crude oil supply disruption propelled the shift towards biofuels and supported demand for vegetable oil feedstocks. Strong biofuel demand is tightening the supply of exportable vegetable oil substitutes, and the production outlook is weakening, most notably for Australian canola. The broader soy complex remains supported by record crush volumes and soymeal exports running ahead of last year's pace, as well as renewed optimism about Chinese purchases as part of the trade deal with the US.
- Corn prices fell in May as US planting pace progressed in line with seasonal norms and rains lowered drought concerns. With export sales already running well above target pace, any signs of Chinese buying tied to the trade deal could add meaningful upside. Looking forward, US acreage is the key swing factor. An upside surprise in corn planted area, alongside the typical improvement in yields brought about by El Niño, could result in another year of record production. However, yield outcomes remain highly uncertain, with fertiliser application expected to fall c. 9% due to elevated costs. In Brazil balances are likely to tighten as CONAB cut production by 4% YoY due to poor yields for the Safrinha crop and the shift toward E32 ethanol blend diverts more corn to biofuel production.
- Wheat fundamentals turned more weather-driven in May as crop conditions deteriorated sharply, with only 26% of US winter wheat being rated good/excellent. However, prices have since reversed as much-needed rains benefitted key growing areas in the US plains. Australian wheat planting is underway, and area is expected to fall sharply, with production potentially falling by 9 million tonnes in 2026/27. Although wheat production will be hurt by El Nino-induced deterioration in growing conditions and elevated fertiliser costs, global supplies remain ample for now.
- The fundamental outlook for soft commodities is still broadly bullish. Sugar fundamentals are supportive as Brazilian mills continue to favour ethanol production over sugar, reducing exportable supply. Ethanol production for the season so far is up 72% YoY and the move to E32 blend will continue to drive down sugar stockpiles going forward. Indian sugar production is set to deteriorate as the shift to El Niño limits monsoon rains and reduced fertiliser application hurts yields.
- We maintain our bullish fundamental score for cotton. India scrapped its 11% import duty to support textile mills and rebuild fibre stocks. With poor monsoon rains likely to curb domestic output, import demand could rise materially. On the supply side, production has deteriorated with close to 90% of US cotton areas affected by drought and Australian cotton production expected to fall 16% this year, suggesting that the global deficit could widen.
- The fundamental score for Cocoa remains positive. Prices rallied 12% in May as patchy rainfall in West Africa raised fears of a smaller and lower quality mid-crop, triggering investors to cover short positions. Looking forward, growing conditions are expected to deteriorate further as El Niño disrupts West African rainfall patterns during key flowering and pod development periods.
- Arabica coffee prices dropped 12% in May as better-than-expected crop conditions prompted Brazilian production estimates to be upgraded. With harvests now underway and production expected to reach record levels, export volumes should pick up, helped by widening spread between local and New York prices.

### Summary of quantitative, technical and sentiment analysis

- The quant total score (average of all commodities individual scores) is neutral. Generally, commodities are cheap on a real historical basis, agricultural commodities (cotton and wheat) in particular. The energy sector saw a marked improvement, scoring more positively across most quant metrics. Scores for metals are generally closer to neutral and agricultural commodities are improving from a period of scoring bearishly.
- The technical outlook for commodities (as measured by the Bloomberg Commodity index) is positive. The 2-year long consolidation has given way to a trend higher, further gains can be expected.
- Sentiment towards commodities is positive with the total Commodity Sentiment Indicator holding above zero. While investors have some commodity exposure, they have room to add more.

## Fund positioning – 29 May 2026

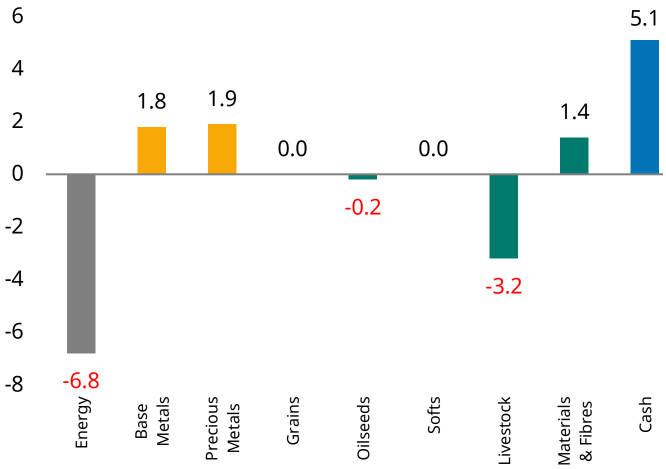
#### Portfolio positioning (%)

| Sector Allocation | Fund Weighting |
|---|---|
| Energy | 29.7 |
| Base Metals | 16.6 |
| Precious Metals | 18.2 |
| Agriculture | 30.5 |
| Cash | 5.1 |

| Security Exposure | Fund Weighting |
|---|---|
| Swaps | 94.3 |
| ETCs | 0.0 |
| Equities | 0.6 |
| Cash | 5.1 |

Source: Schroders.

#### Portfolio vs. benchmark (%)




#### Performance snapshot (%)

**Past performance is not a guide to future performance and may not be repeated.**

| | 1 Month | 3 Months | YTD | 1 Year | 3 Years p.a. | 5 Years p.a. | Since Inception |
|---|---|---|---|---|---|---|---|
| **Fund I Acc USD** | -2.0 | 13.7 | 27.0 | 47.1 | 18.6 | 12.3 | 13.1 |
| **Benchmark[1]** | -3.6 | 12.1 | 25.0 | 40.5 | 16.6 | 11.7 | 12.6 |

Source: Schroders, Morningstar, as of 29 May 2026. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

[1]Benchmark refers to Bloomberg Commodity TR USD.

### Calendar yearly performance (%)

**Past performance does not predict future returns.**

| Period | Fund I Acc USD | Benchmark[1] |
|---|---|---|
| 2025 | 22.0 | 15.8 |
| 2024 | 2.6 | 5.4 |
| 2023 | -7.4 | -7.9 |
| 2022 | 16.2 | 16.1 |

Source: Schroders, Morningstar, as of 31 May 2026. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed. The fund's investment universe is expected to overlap to a limited extent with the components of the benchmark. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the benchmark. The investment manager will invest in companies or sectors not included in the benchmark in order to take advantage of specific investment opportunities.

[1]Benchmark refers to Bloomberg Commodity TR USD.

### Risk considerations

**Concentration risk:** The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

**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.

**Currency risk:** If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

**Currency risk / hedged share class:** The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

**Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, may be used for investment purposes and/ or to manage the portfolio efficiently. 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.

**Higher volatility risk:** The price of this fund may be more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

**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.

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