Schroders

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Schroder GAIA BlueTrend

Fund Manager: Systematica Investments
Fund update: Annual Review 2023

Performance overview

– After a strong 2022 (+29.8% for the C USD share class), 2023 was marked by negative performance, as the trend reversals in March and November took their toll on the fund. Losses in fixed income, equities and commodities resulted in the fund posting a loss for the year. However, FX and credit contributed positively offsetting some of the loss.

Drivers of fund performance

– The year can be summed up by a large drawdown in Q1, following the violent reaction of fixed income markets during the regional banking crisis in the US. This was followed by a volatile and partial recovery over the course of the year.

– Looking at Q1 specifically, whilst the fund did not have any direct exposure to SVB or other US regional banks affected by the crisis, it was exposed to Fixed Income and the violent trend reversal on rates (three consecutive days of almost 3 sigma moves) generated losses. These were compounded by broad reversals across other traded markets, particularly equities. This can be highlighted with the 2-year US treasury yield having the biggest daily decline in more than 40 years.

– Q3 and Q4 (particularly November) also saw large reversals in markets across asset classes (rates, FX and equities most notably) which proved a challenging environment for trend following strategies to navigate in.

– In Q4 the fund was negatively impacted by such a reversal - as Jerome Powell's more dovish comments on the US Central Bank's interest rate cycle saw a sharp rally in financial assets. Equities rallied to close in on all-time highs whilst yields collapsed. The US 10 year saw yields fall by more than 100bp having their best quarter for over two decades. Within BlueTrend this led to losses in rates, FX and commodities which was partially offset by equities.

– At the end of the year the fund was in aggregate long fixed income and equities and short commodities and the USD.

Outlook 2024

– 2023 was a tougher environment for the fund with the faster speed settings employed within the programme making navigating sharp V-shaped trend reversals more challenging. In other words, the speed settings which render the fund defensive to equity market drawdowns were unfortunately not suited to the market moves last year.

– However, these settings add value over the long term and help make the fund a compelling risk mitigating strategy, able to dynamically reposition its exposure across asset classes in the case of a reversal.

– As we come into 2024, with equity markets printing new all-time, high valuations and increased levels of concentration, as well as an economic landscape affected by a wide range of macro themes including de-globalisation, decarbonisation, demographics, and geopolitics, we feel that the strategy is an interesting option to diversify long only and other alternative exposures. The environment described above may lead to more pronounced trends and increased volatility, which tends to be favourable to trend following strategies.

– In such an environment, the faster trading style and reactivity of the fund could prove an asset.

– Finally, the research capabilities of the team continue to expand the tradable universe for the fund. Today the fund trades over 180 markets and this is set to expand further in 2024.

– In addition to this, the team continues to run a rich research agenda, focused on improving the trading models, risk management and execution.

Performance (%) and AUM

	Fund	Comparator
Month-to-date	1.6	-0.7
Year-to-date	-9.1	-3.6
Inception-to-date[1]	20.8	17.2

	AUM ($)
Fund size	$342.0m

Calendar year performance (%)

Year	Fund	Comparator
2023	-9.1	-3.6
2022	29.8	16.9
2021	3.1	-0.6
2020	14.0	1.8
2019	10.4	6.1
2018	-7.9	-5.1
2017	0.7	5.1
2016	-13.7	-2.4

Source: Schroders, as of 31 December 2023. Fund performance is net of fees, NAV to NAV with net income reinvested, USD C Acc shares. Please see factsheet for other share classes. The comparator benchmark is HFRX Macro: Systematic Diversified CTA Index.
Fund launch: 10 December 2015.

Risk considerations

- 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.
- Currency risk / hedged share class: The 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 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.
- Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.
- IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.
- Interest rate risk: The fund may lose value as a direct result of interest rate changes.
- 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.
- 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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