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Schroder AS[1] Commodity Fund

Quarterly fund update

First quarter 2025

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Cumulative returns to 31 March 2025 (%)

C accumulation shares net

USD returns

Annualised	3M	1 yr	3 yrs	5 yrs	10 yrs	SI[2]
Fund	9.86	10.95	-3.04	13.39	2.00	0.09
Bloomberg Commodity Index	8.88	12.28	-0.77	14.51	2.80	-0.74

[2]Inception date 31 October 2005.

Calendar year returns (%)

	Fund	Benchmark
2025 YTD	9.86	8.88
2024	1.17	5.38
2023	-8.65	-7.91
2022	14.34	16.09
2021	23.96	27.11
2020	3.83	-3.12
2019	4.96	7.69
2018	-11.92	-11.25
2017	-3.23	3.52
2016	16.77	11.60
2015	-29.05	-26.76
2014	-24.80	-22.74
2013	-8.96	-5.06
2012	-1.18	-0.51
2011	-7.15	-7.46
2010	13.85	15.63
2009	32.28	20.57
2008	-36.22	-39.65
2007	29.52	25.19
2006	14.80	-3.36
2005[2]	2.49	3.04

Source: Schroders; BCOM TR Index.

Investment objective and approach

The fund aims to give investors a diversified exposure to commodities primarily through commodity futures. Although index unconstrained, this is an enhanced beta product with the return objectives of outperforming the Bloomberg Commodity TR Index, with lower volatility.

- Actively managed
- Index unconstrained
- Long only, no leverage
- Fundamental research driven
- Equal emphasis on agriculture, energy and metals
- Medium-term time horizon

Key fund information

Fund benchmark	Bloomberg Commodity Index
Fund size	USD 346 million
Fund volatility	15.92%
Benchmark volatility	17.16%
Fund Information Ratio	0.13
Fund Excess Sharpe Ratio	0.04

	1 year	3 year
Fund volatility %	9.78	11.88
Benchmark volatility %	9.16	12.60
Fund Information Ratio	-0.30	-0.52
Fund Sharpe Ratio	0.59	-0.63
Benchmark Sharpe Ratio	0.78	-0.41

Source: Schroders as at 31 March 2025.

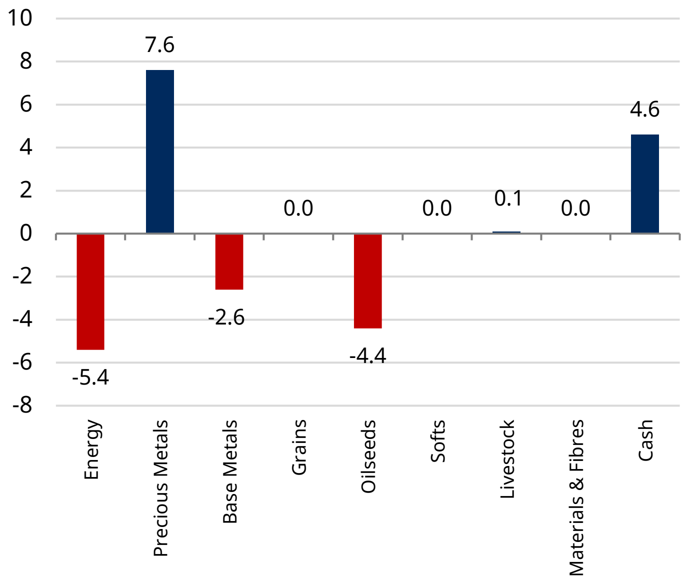
[1]Schroder Alternative Solutions is referred to as Schroder AS throughout this document.

Risk considerations: Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested. **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:** The fund may lose value as a result of movements in foreign exchange rates, otherwise known as 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 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 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. **Issuer risk:** The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following country: United States of America. **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.

Portfolio Positioning 31 March 2025 (%)

Sector Allocation	Fund Weighting
Energy	24.6
Precious Metals	27.9
Base Metals	12.5
Grains	9.5
Oilseeds	7.8
Softs	6.0
Livestock	5.5
Materials & Fibres	1.5
Cash	4.6
Security Exposure	**Fund Weighting**
Futures	95.2
Equities	2.1
Options	-1.9
Cash	10.8

Portfolio vs. benchmark (%)



Source: Schroders.

Current strategy

I – Energy = Non-OPEC supply growth over 2025 will outstrip demand growth causing inventories to rise

With OPEC also adding back barrels and demand weakening lower oil prices are expected

- OPEC+ has decided to accelerate the return of barrels in May, this will add further pressure to oil prices given the already high non-OPEC supply.
- US natural gas prices still appear overvalued given the strong US production and while LNG has picked up this year supply should be ample at these prices to meet LNG needs.

II – Metals = Trade war air pocket for base metals

Maximalist tariffs a further accelerant to gold

- Tariff expectations and potential policy responses to them have dominated base metals this year. The effect of the current (as of "liberation day") tariff regime is estimated at 1-2% of Chinese GDP growth. For now, we expect a weaker RMB and retaliation from elsewhere (the EU for example) to be front and centre. This can pressure base metal prices across the board. Beyond that we expect a strong stimulus response to drive rebounds.
- Gold prices are hitting new all-time highs as Trump's aggressive trade policies super-charge the already bullish long-cycle structural drivers. The MAGA administration's rejection of the current extreme US net international investment position (-US$26tn) and his determination to reduce deficits bring the concept of dollar safe assets heavily into question, benefitting gold.

III – Agriculture = escalating trade war amplifies uncertainty

Substantial shift in planted areas for US corn and soybeans expected for next year

- The ratcheting up of tariff-driven trade wars with major trading partners puts US export market share at risk.
- Fluctuating weather patterns add uncertainty to conditions in key growing regions like South America, the Black Sea and the US corn belt.

Conclusions: In very uncertain times flexibility is key and that is certainly the case in commodity markets. While gold and silver remain favoured assets, we are more cautious on oil and natural gas. Agriculture is more mixed with some balances becoming tighter.

Fund review

Commodities as an asset class gained 8.9% in Q1, with all sectors rising. The funds ended the quarter ahead of the benchmark, the metals and agriculture sectors being the main contributors to outperformance.

Precious metals rose 17% and our overweight positions in gold and silver helped relative performance. Our allocations to energy contributed to absolute performance in the quarter but underweights in WTI and natural gas proved costly in relative terms. In agriculture, gains were driven by our positions in soybean oil, coffee and live cattle, whereas underweight positions in corn in soybeans added to relative returns, albeit on the downside.

Investment outlook

Energy

- Our negative view on oil prices remains is place with ample supply the main problem but weakening demand is also becoming a concern. The excess supply was coming from non-OPEC producers, but they have now been joined by OPEC following the change in policy at the April meeting.
- OPEC+ has backed itself into a corner but now seem more focused on adding back production rather than price stability. The change in policy came in at the April OPEC meeting. The aim of the meeting was to try and encourage Kazakhstan to adhere more closely to their OPEC quota. As a reminder, Kazakhstan has over produced relative to their quota for months and some estimates have their production as high as 1.8/1.9mb/d against a quota of 1.468mb/d. It seems like Saudi Arabia has finally had enough and decided to increase production more than originally planned.
- Of course, there may well be a political element to the strategy as well. The US has made it clear for some time they would like a lower oil price and with US production very unlikely to increase it seems logical that those with the most spare capacity are best place to increase production and therefore pressure prices.
- But it is not just OPEC+ that is increasing production. 2025 will be a bumper year with increased production driven by numerous FPSO's coming online. In Brazil they should add 0.4mb/d to 0.6mb/d while Guyana will and one new FPSO, One Guyana, with capacity of 0.25mb/d. Norway will also add capacity.
- Global oil demand growth has been relatively stable around 1.2mb/d of late but this year is looking increasingly challenging. Much of the demand growth comes from Asia but with tariff wars in full flow this may be dented. US demand, which is 20% of global demand, will also likely be challenged and we are already seeing aviation demand drop off.
- So, the oil market is caught in a trap of higher supply from non-OPEC producers, OPEC+ wanting to bring back barrels and demand weakening. Prices could fall to low $50's/bbl. But at those levels we are likely to see OPEC change strategy and US production falter. This should provide a base for prices.
- US natural gas prices jumped in Q1 as heating demand surged due to a colder than normal winter. However, despite LNG picking up we view current gas prices as too high. The average cost of production is around $3/MMBtu and winter 2026 contracts trade around

$5/MMBtu offer significant incentives for production to increase – and this is reflected in company plans. The funds have an underweight position in US natural gas.

Metals

- Gold prices ended Q1 up 18% and although we saw some retracement in early April with broad de-grossing across markets, prices are now making new all-time highs at $3,200/oz (at time of writing). This is because gold is likely a net beneficiary of Trump's aggressive tariff policies, that are stagflationary as a base case. However, the bigger picture is a seismic shift to the global trading system and in global confidence in US dollar "safe" assets, potentially leading to major repatriation flows. We expect this to only accelerate the simultaneous global monetary bid for gold that we have been talking about.
- Although we are not currently positioned in the gold miners, we still believe this is where there is a clear dislocation and room for a sharp catch up to gold bullion, particularly once market volatility eases. Q1 results should bring the record FCF that many miners are generating back in to focus.
- Tariff expectations and potential policy responses to them have dominated base metals this year. Through much of Q1 markets were pricing in the bullish elements of a disruptive trade policy and in markets like copper focusing on the CMX / LME dislocations that were creating the threat of metal scarcity outside of the US. However, with the effect of the current (as of "liberation day") tariff regime estimated at 1-2% of Chinese GDP growth and a ~1% hit to US growth the bearish global trade/growth impacts are now much more prevalent.
- For now, we expect a weaker RMB and retaliation from elsewhere (e.g. the EU and China) to be front and centre. This can continue to weigh on base metal prices across the board. Beyond that we expect a strong stimulus response to drive rebounds, but the timing of any such response still remains uncertain.
- Within base metals there are still fundamental factors driving relative valuation views. In copper weak mine supply this year helps to some extent offset weaker global growth and the potential for lower global scrap exports and an outright scrap export ban to China from the US would be an upside risk. In Aluminium prices are very dependent on if the China capacity "cap" is real or not. If it is, then we will need to see pricing move higher to incentivise supply restarts in the rest of the world. Although the collapse in bauxite / alumina prices does also point to a deflating cost base. Meanwhile in Zinc and Nickel balances look weak. We're past peak concentrate tightness in Zinc and mine supply growth drives the shift to surplus markets while Nickel oversupply means we maintain our bearish view down to cost support at ~$14k/t.
- We are now more cautious on the outlook for PGMs given rising growth concerns and the impact to auto sales. This would be particularly negative for autocatalyst demand and could weigh on PGM prices in the near-term, we remain on the sidelines for now.

Agriculture

- The agricultural commodities complex ended the first quarter of the year up 2%. Coffee drove the gains, rallying 18.8%, more than offsetting small losses in grains and oilseeds. Earlier concerns regarding South American growing conditions eased as rains repaired soil moisture deficits and limited crop losses. Geopolitical risks came to the fore as tariffs impacted the outlook for agriculture trade flows.
- Corn prices ended Q1 flat, having fallen sharply from the February high following the announcement of tariffs on Mexico and Canada. We held our neutral fundamental score. Balances tightened due to the USDA's sharper-than-expected cut to US yields, strong export pace and resilient ethanol demand. Planting for Brazil's safrinha corn crop is now complete. Consistent rains are needed in April and May to offset the hot and dry start to the growing season. Looking ahead to next year, large direct payments to US farmers and more supportive subsidies are likely to push corn planted area above the 95.3 million acres implied by the March prospective planting report. However, storms and flooding hitting the US corn belt will delay planting.
- Soybeans gained 1.7% in Q1. The fundamental outlook remains bearish. Whilst heat and drought stress in Brazil's southern states have resulted in cuts to some production estimates, the Brazilian crop is still expected to reach record levels. Brazil continues to dominate global soybean production and trade, resulting in declining US exports. This has been exacerbated by China's retaliatory tariffs on US soybeans, which essentially confirms Brazil as their primary supplier and increases the likelihood of China significantly cutting, if not completely bypassing, imports from the US. However, we are more optimistic on soybean oil. US soybean oil stocks are at multi-year lows and increased demand for soybean oil feedstocks for biodiesel production could drive prices higher. Reciprocal tariffs on Indonesia, Malaysia and China are likely to hit US imports of palm oil and used cooking oil, pushing US biodiesel producers to seek domestic soybean oil feedstocks instead. US oil and biofuel producers have agreed to increase the blend mandate from 3.35bn gallons to 4.75-5.5bn, pending EPA approval – the first step towards biofuel policy that we've seen under the Trump administration.
- The fundamental score for wheat is neutral. Prices declined 2.6% in Q1 as concerns of crop damage due to erratic weather patterns eased and import demand weakened. China imposed a 15% tariff on US wheat, adding pressure to exports alongside better growing conditions in Australia, Argentina, and Canada. Looking ahead, weather developments are crucial for global wheat production outlook ahead of the winter wheat harvest this summer.
- Coffee prices continued to surge in Q1 as worsening weather hit coffee crops. Droughts hit arabica production areas in Brazil whilst excess rains hurt robusta harvests in Vietnam. ICE Arabica stocks declined, extending the coffee market deficit into its fifth year. Demand remains resilient as retailers limit price increases over the near-term.

Quant analysis

- The quant total score (average of all commodities individual scores) was neutral in Q1. Generally, commodities are cheap on a real historical basis, agricultural commodities in particular. Although recent strength has reduced their valuations score, precious metals still rank as the best scored commodities overall. Conversely, live cattle and sugar continue to score poorly on both quant and valuation measures, with negative scores across all four factors used in the model. Scores for base metals are generally positive, and energy commodities score closer to neutral on quant metrics

Technical and sentiment analysis

- The technical outlook for the asset class as measured by the Bloomberg Commodity Index is neutral. Our long-term pattern analysis shows the index is range bound with 10% moves in both directions occurring frequently but larger moves have been elusive.
- From a sentiment analysis standpoint, the outlook remains neutral with our Sentiment Indicator holding around zero, investors are unwilling to take much directional risk in commodities at present.

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