

Schroder ISF* Global Diversified Growth

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Market overview

- Global equities advanced in August, underpinned by resilient earnings, moderating inflation and expectations that interest rates will soon move lower. Japan was the standout market, supported by robust corporate results and Artificial Intelligence (AI) data-centre demand, while Latin America and China helped lift emerging markets (EM). US shares rose even as softer labour data and ongoing tariff disputes weighed on sentiment; materials and healthcare led gains as technology lost momentum. In Europe, modest equity gains reflected strength in energy and consumer discretionary, partly offset by weakness in industrials and IT. UK equities benefited from basic materials and energy, though the Bank of England's call to cut rates was closer than expected, highlighting ongoing policy uncertainty.
- In fixed income, shorter-dated US treasuries rallied as weaker jobs data and dovish Federal Reserve (Fed) commentary bolstered expectations of near-term easing. Longer maturities remained pressured by fiscal concerns, while corporate bonds gained on strong earnings. The dollar weakened, while sterling and the euro firmed.

Fund performance

- The fund continued to perform well in August, led by global equities. Particularly, our global value strategy generated solid returns, with value outperforming growth over the month. Allocations to EM were also additive, buoyed by an extended pause on tariffs between the US and China.
- In fixed income, returns were broadly flat, except for an allocation to local EM debt which extends its positive run.
- Lastly, in alternatives, allocations to gold and gold mining equities performed well, buoyed by investor demand for the precious metal following an increase in US rate cut expectations and challenges to US Fed independence.

Fund activity

- This month, we reduced overall risk and built cash reserves. Within equities, we rotated part of our core global allocations into global value as markets were pricing a near-perfect macro backdrop. As such, we also closed our long US technology vs US large caps trade and added put spread protection on US large caps.
- Outside of the US, we took profits on Japanese large caps following a strong run of performance, added short hedges against UK large caps, and diversified our equity positioning by adding small allocations to European and German large caps.
- In fixed income, we closed our German bunds vs US treasuries trade, predicated on sticky inflation in Europe and softening labour market data in the US. With a steep increase in expectations for rate cuts in the US, we added outright exposure to the US 10-year. Elsewhere, we topped up our multi-credit strategy as strong earnings and a benign economic environment remain supportive of the asset class.
- Lastly, our positioning in alternatives was largely unchanged. We took a small amount of profit on our gold position following another strong month.

Outlook/positioning

- We continue to assign a low probability to a US recession; however, with markets pricing in a near-perfect macro backdrop, we see rising vulnerability to macro disappointments. Tariff risks remain elevated and the narrow balance in the labour market looks unsustainable, raising the chance of a negative growth surprise.
- At the same time, inflation risks are building as the US administration pressures the Fed to cut rates amid aggressive fiscal stimulus, increasing the likelihood of an overshoot. Stronger tariff passthrough could exacerbate this trend.
- In response, we have downgraded equities to neutral, as valuations appear stretched and the risk/reward profile has become less compelling. We are also negative on duration, particularly at the long end, where inflation risks and term premia repricing weigh on bonds. We retain a positive stance on gold as a diversifier and a negative stance on the US dollar, implemented via long euro and EM local debt exposures.

Calendar year performance (%)

Year	Fund Gross
2024	10.6
2023	6.9
2022	-11.9
2021	8.4
2020	4.9
2019	11.6
2018	-8.2
2017	8.3
2016	4.8
2015	0.4

Risk considerations

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

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.

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

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

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

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.

Derivatives risk: Efficient Portfolio Management and Investment Purposes: Derivatives may be used 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

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

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.

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.

IBOR: 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.

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