Schroders

Marketing material
for professional clients only

Schroder ISF* Global Diversified Growth

Fund managers: Johanna Kyrklund, Remi Olu-Pitan and Dominique Braeuninger

July 2024

Performance overview

- The fund's performance remained positive in July. Global bonds performed well as yields fell across most major markets. Meanwhile, equity markets experienced a rotation, with value stocks outperforming growth while small caps performed strongly.

Drivers of fund performance

- For the first time this year, fixed income allocations drove returns. Returns from equity and alternatives were broadly flat.
- July was a positive month for bond markets, as easing inflationary pressures and evidence of slowing growth in the US opened the door for sooner-than-expected rate cuts. Government bond yields fell across the board, with our US and European government bonds both adding to performance.
- Allocations to European credit also performed well. European corporate bond spreads tightened over the month, outperforming US corporate bonds. Meanwhile, European high yield managed to avoid the sell off in risky assets and was supported by the prospect of lower rates.
- In equities, returns were flat. Small losses in our global equity strategy were offset by gains in our global gold and value equity strategies.
- Lastly in alternatives, returns were also flat. Our trend following strategy made small losses following the sharp reversal in markets, as did our broad commodities basket. These losses were offset by small gains in our gold ETF, where the price of the precious metal continues to hold up against buoyant demand.

Portfolio activity

- At a high-level, portfolio activity focused on reducing equity exposure and adding to government bonds.
- Within equities, we reduced exposure to US large caps. Concerned with the possible scale of the market rotation, we took profits on our US technology position and introduced a long US financials vs S&P 500 position. This proved the right decision, with the information technology sector declining and financials gaining.
- Elsewhere, we introduced a long MSCI EM vs Euro Stoxx 50 trade. We expect robust external demand to continue to drive the export recovery in emerging markets. Meanwhile, the weak manufacturing PMI and political uncertainty in Europe has led to a weakening in European equity markets.
- Moving to fixed income, we closed our allocation to the US 30 year, opening a larger position in the US 5 year. Concerns around fiscal sustainability may result in higher yields at the long end of the curve whilst interest rate cuts underpin the short end.
- We also bought back some of our short German Schatz, whilst in emerging market debt we closed our allocation to the Brazilian 2 year.
- Finally, in alternatives, we reduced our broad commodities exposure and instead topped up our gold ETF. We also trimmed our trend following strategy.

Outlook/positioning

- Over the month, economic data continued to confirm our expectations of a soft landing, with activity remaining positive and inflation moving in the right direction.
- With interest rates starting to fall, we remain positive on emerging market equities.
- The biggest risk ahead of us is the US election. Protectionism is likely to remain a feature of US policy whoever wins. Immigration policy could be important in the context of wage growth, particularly because labour markets are still buoyant.
- We remain positive on gold as it should benefit from falling real rates whilst also offering protection against more persistent inflation or fiscal deficit concerns.

Calendar year performance (%)

Year	Fund Gross
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
2014	7.8

Source: Schroders, 31 December 2023, I Acc share class, gross of fees. Please see factsheet for other share classes.

Past performance is not a guide to future performance and may not be repeated. 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. Please see the respective fund factsheets for the performance of other share classes.

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.

Important information