Schroders

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Schroder ISF* Global Diversified Growth

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

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Performance overview

- The fund's performance was negative in December. Both global stocks and bonds sold off after the US Federal Reserve (Fed) indicated that there would be fewer interest rate cuts for 2025 than markets were anticipating.
- Against this backdrop, equity and fixed income allocations detracted from performance, whilst alternative assets edged into positive territory.

Drivers of fund performance

- Starting with equities, our core allocation to US large caps was the biggest detractor from returns. The Fed signalled a more hawkish tone, with their latest interest rate forecast implying two cuts in 2025, down from the four previously signalled in September.
- Moving to fixed income, losses were driven by government bonds. In line with reduced rate cut expectations, an allocation to the US 10-year detracted. Whilst the European Central Bank (ECB) cut rates, the overall tone was less dovish than expected and an allocation to the German 10-year also detracted.
- In credit, small gains in European high yield were offset by small losses in European investment grade. Persistent inflation and a more cautious approach to rate cuts had a greater impact on investment grade securities.
- Lastly, in alternatives, our insurance-linked strategy added to returns.

Portfolio activity

- This month, portfolio activity was muted. We took some risk off the table and closed recent tactical trades.
- Starting with equities, we increased put spread protection on the S&P 500, recognising stretched valuations in the US. We also closed the recently established long Dow Jones and long US small caps versus US large caps trades, given these were consensus "Trump" trades.
- Outside of the US, we closed our short hedges against European and UK equities. Whilst the growth outlook is weak in Europe relative to the US, a lot of negative sentiment has been priced.
- In fixed income, political uncertainty in the Eurozone, combined with the evolving interest rate backdrop led us to sell an allocation to the Italian 10-year. Elsewhere, portfolio positioning in fixed income was unchanged.
- Lastly, in alternatives, we increased our tactical allocation to gold. With bonds pricing fewer rate cuts, gold remains our preferred hedge against geopolitical and fiscal uncertainties.

Outlook/positioning

- As we enter 2025, the focus shifts from landing to divergence across economies, central bank actions, and market performance. In the US, we continue to expect fewer rate cuts from the Federal Reserve (Fed) than the market anticipates. However, recent pricing has aligned more closely with our view, leading us to a neutral position on rates overall.
- Our positive equity view has been focused on the S&P 500 this year, which has proven to be the right call. We recognise that the market appears expensive but believe it is premature to short the mega-cap tech names, which would naturally result from an underweight position in the S&P 500.
- Valuations in Europe are more attractive, and sentiment towards the region is almost universally negative. With upcoming elections in Germany (which could prompt a shift in fiscal policy) and expected rate cuts from the ECB, we believe there is potential for the market to perform better in 2025.

Calendar year performance (%)

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

Source: Schroders, 31 December 2024, 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