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Schroder ISF* Global Diversified Growth

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Performance overview

– The fund's performance was strong in January. Markets bucked a trend with European shares outperforming other regions. US leadership in artificial intelligence (AI) was challenged by China's DeepSeek.

– Against this backdrop, equity, fixed income and alternative allocations all contributed positively to returns.

Drivers of fund performance

– Starting with equities, our core global strategies were the biggest contributors to return. Equity markets performed well, with markets such as Europe benefitting from global investors rotating away from US technology stocks.

– Despite the US technology sector ending the month lower, US stocks in general ended the month higher and our allocations to US large caps and US financials also added to returns.

– Moving to fixed income, returns were more muted. Government bonds ended the period flat in what was a volatile month for yields. A weak start to the month following President Trump's inauguration and the implementation of tariffs was offset by a rebound later in the month following signs of disinflation.

– In credit, small gains were amassed across investment grade, high yield, and emerging market debt. A benign growth environment and attractive income continues to underpin credit markets, whilst a weakening US dollar provided a boost to emerging market debt.

– Lastly, in alternatives, our allocation to gold performed well. Commodity markets more broadly were buoyed by Trump's tariff threats.

Portfolio activity

– This month, we further diversified our equity exposure and implemented some tactical positioning in government bonds.

– Starting with equities, we closed our put spread protection on the S&P 500, balancing this by reducing our exposure to the index. While we are positive on US equities, which continue to be supported by healthy earnings growth, we do have concerns around index concentration.

– We continue to diversify through US financials, but we booked some profits on the position this month. Instead, we further diversified our equity position by investing in European small and mid-caps. With a lot of negative sentiment already priced in European markets, we see significant room for upside surprises.

– In fixed income, we moved short the US 2-year following hawkish comments from the US Federal Reserve. That said, US rate expectations moved closer to our forecast of just one rate cut in 2025. As such, we topped up exposure to the US 10-year as valuations were attractive.

– Lastly, we took profits on our inflation-swap position which increased in value as markets adjusted inflation expectations considering Trump's policy agenda.

Outlook/positioning

– The repricing of government bond yields led us to consider whether we should turn positive on bonds. We concluded that we would stay neutral - valuations have improved but we see low risk of recession in the United States. Concerns about the risk of incipient inflationary pressures later in 2025 and the sustainability of government debt mean that bonds do not offer the same diversification benefits.

– We continue to own European high yield debt to benefit from the income and are turning more negative on US investment grade debt as credit spreads there are now wafer thin.

– We continue to like gold as an alternative to government bonds as it should perform if we are wrong about recession risk but also offers some diversification in the event of concerns about geopolitical risk or inflation.

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