

# Schroder Global Core Fund (Wholesale Class)

## Fund commentary

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The QEP Global Core strategy outperformed over the quarter as markets navigated diverging regional growth signals, evolving central bank policy expectations and a robust earnings season. Whilst the strategy's quality focus remained a steady anchor, contributors were broad based across cyclical and structural growth.

Specifically, positioning in Technology (Semis and Application Software) was additive as the sector continued to perform strongly in the wake of solid earnings. Industrials also contributed, driven by exposure to Manufacturing names which benefitted from resilient demand and ongoing geopolitical risks. Meanwhile, Materials supported relative performance as select exposures in Chemicals and Metals gained on improving demand trends. Additional contributions came from Financials (Banks) and Real Estate, where stock selection was rewarded.

Detractors were modest over the period and largely from more defensive areas which lagged in a risk on environment. Notably, Communications were the key detractor from holdings across Telcos, whilst our holdings in higher quality Utilities were similarly left behind.

Entering the third quarter, markets showed surprising resilience, as investors appeared to recalibrate their expectations for rate cuts and navigate a fine line between optimism and caution. Against this backdrop, we remained disciplined, trimming those areas where relative strength had led to stretched valuations, whilst topping up the allocation to preferred quality areas. Notably, we reduced positions across Financials and select Consumer Staples, taking profits in areas where performance had been robust, while reinforcing our exposure to structural growth. More specifically, Technology continued to represent the largest overweight in the strategy, with allocation rising further through the quarter. Communication services also moved higher, with the overweight broadening as we leaned into opportunities across select Media and Telecom names. Meanwhile Healthcare saw incremental additions, shifting from a slight underweight to a modest overweight, reflecting increasingly attractive valuations.

By contrast, Financials – primarily Insurers – and Consumer Staples were meaningfully reduced, moving to a more notable underweight. The overweight position in Industrials was also reduced. We remain underweight Consumer Discretionary, albeit to a lesser degree than in the previous quarter. Energy exposure was marginally trimmed, maintaining its modest underweight, while Real Estate increased slightly to narrow its underweight stance. Utilities remain a small overweight, retaining their role as a defensive anchor.

Leading into the fourth quarter, a few large overweights in the portfolio are within Technology and Communication Services, supported by selective tilts in Healthcare. The notable underweights were in Financials and Consumer Staples, alongside a prominent underweight in Consumer Discretionary. The portfolio remains focused on high-quality, fundamentally strong businesses trading at attractive valuations, with positioning continuing to balance structural growth exposure against a selective approach to defensives.

From a regional perspective, the main increase in exposure was to the US funded from a reduced allocation to Europe, as we continued to trim positioning on strong performance. The strategy finished the quarter with overweights in the US alongside Emerging Markets, with underweights to Europe, the UK and Japan.

## Market review

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Global equities delivered solid returns in the third quarter of 2025, supported by resilient corporate earnings and expectations of continued policy support. While macroeconomic data pointed to some softening, it remained sufficiently resilient to keep recession fears in check. US tariffs remained a key theme during Q3, but their impact has so far been less than feared back in April. The announcement of trade deals with the EU and Japan also helped to push tariffs down the list of investor concerns. Nevertheless, increasing signs of fragility in the US labour market as businesses attempt to shore up their profit margins encouraged the Fed to cut rates in September for the first time this year. Further easing is expected in the coming months although the Fed has made it clear that this will depend on the path of economic developments.

With the core ingredients of a “goldilocks” market in place, developed equities gained 7.3% (all figures in USD terms) over the quarter according to MSCI, taking their year-to-date gain to 17.4%. Global equities have now rallied nearly 33% since the low posted on 8th April. US Treasury yields declined modestly in the third quarter, but this resilience was not mirrored in European bond markets, where concerns about the fiscal situation intensified, most notably in France and the UK.

After lagging at the start of the year, US equities continued to lead among developed markets, with strength concentrated in large-cap Technology and Semiconductor stocks. For all the talk of a broadening market, leadership remained narrow, with a small cohort of mega-cap names contributing disproportionately to index-level gains, namely Apple, Alphabet and Tesla. In fact, around 60% of the S&P 500's return in Q3 came from the Magnificent 7 despite the much softer performance of Meta and Microsoft. Unusually, the strength of the major tech leaders was accompanied by ongoing recovery in small and mid-cap stocks, thanks to improving earnings growth and a more supportive policy backdrop.

Despite a slightly firmer US dollar, emerging markets topped the leaderboard in terms of regional performance, with strong gains posted by China, South Korea and Taiwan in particular. However, this echoed the narrowness of the US market, as it was dominated by big gains in a handful of index heavyweights such as TSMC, Tencent, Alibaba and Samsung.

From a sector perspective, Technology and Communication Services were again the strongest performers. Investors remained focused on structural themes around AI, Cloud Infrastructure, and Digital Transformation, with Semiconductors at the centre of this momentum. However, questions around valuation stretch and earnings sustainability are becoming more prominent. Materials also performed well due to the strength of gold stocks, which gained by nearly 17% in the quarter and are ahead by 46% year to date. Not surprisingly given the higher appetite for risk, defensives generally lagged with Consumer Staples the only sector to post negative returns during the quarter.

There was no clear style narrative in Q3. According to MSCI's style indices, Growth stocks outperforming in the US and Emerging Markets whilst Value continued to beat Growth in the rest of the world. In a sentence, there appeared to be something for everyone in the quarter.

## Outlook

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After consolidating earlier in the year, equity markets have forged ahead to post new highs. The long-term trend remains healthy with the S&P above both its upward sloping 50 and 200-day moving averages. Along with record high prices, perhaps more worrying is that the S&P 500 also hit fresh records on a handful of valuation metrics. However, unlike recent years, this is not just about the US as virtually every country included in the MSCI ACWI universe ended the quarter above its 200-day average with most of the major indices also hitting new highs. The strong recent performance of more speculative areas of the market is an indicator of animal spirits returning. In a similar vein, Emerging Markets have also made a strong come back after being in the doldrums for many years.

For the best part of the past decade, it's been too easy to simply back US big tech but this has hidden the fact that there have been other ways to make money (e.g. European Banks). Even small caps have recently made a come-back globally and value stocks have performed very well in EAFE markets. This is not just speculative as US small caps enjoyed their best earnings season in over 25 years with results highlighting a more encouraging outlook.

However, at the stock level, there are few signs of breadth resuming to historical levels. Just 44% of stocks in MSCI's World index have outperformed the index so far this year whilst the equivalent proportion in Emerging Markets is only 33%. On this measure at least, stock breadth remains low in the US (38% YTD) and well below 50% in other major markets.

Surveys of investors are slightly less upbeat than the strong performance of the equity indices would appear to indicate. According to the latest Bank of America Global Fund Manager Survey (September 2025), investors are cautiously optimistic. Cash levels are low and equity allocations are at a seven-month high. There was also a big jump in global growth optimism as the risk of a "recessionary trade" has fallen sharply since April. 85% of respondents expect a soft landing or no-landing. This is even though 58% say stocks are overvalued and concerns about a second wave of inflation or US dollar debasement due to interference with the Fed's independence. A disorderly rise in bond yields is the third most cited tail risk. Being long the Mag-7 remains the most crowded trade (followed by long Gold). This is all consistent with more gains ahead as investors are not yet sufficiently euphoric to ring any alarm bells.

Naturally, turning points tend to be difficult periods for investors to navigate. This is particularly true today as the divergence between weakening leading indicators and equity market optimism raises questions about market sustainability. The question is whether leading indicators (e.g. ISM surveys) will continue to recover even as the current (lagging?) economic indicators such as employment remain soft. Much depends on how response the US economy is to Fed rate cuts and the extent of those cuts.

Despite the market broadly thinking of it as dovish, the most recent Fed meeting sent mixed messages. On the one hand, expectations for US GDP growth out to 2027 were revised upward but forecasts for inflation also edged higher. At face value, this would suggest that the US economy needs less not more rate cuts. Despite this, the Fed signalled more rate cuts to come, with the median estimate for the 2026 Fed Funds rate fading from 3.6% in June to 3.4%. The debate on Fed policy will not be resolved anytime soon but the market is expecting at least three more cuts in the coming months. As such, economic data will remain important, most notably the inflation prints as investors are clearly concerned about a tariff related lift, but easing of this magnitude is hardly stimulative and will probably not be sufficient to fuel a further re-rating of equities.

More broadly, big rotations in the market typically don't arrive in the fourth quarter (albeit with some notable exceptions) which suggests that investors are likely to stick with recent winners, even if they are overbought. The general preference for cyclicalities will probably also continue in the short term, particularly with the Fed cutting. Conversely, defensive equities are looking increasingly cheap but there is no clear catalyst for their recovery. More broadly, rate cuts after a pause with no signs of a recession have historically been good for equities.

Looking further out, the picture is less upbeat. It is well known that we have had three long secular equity bull runs since WW2 (1945-1968, 1982-2000, 2009-to-date) and it would be wise to start factoring in the greater probability of weaker returns ahead, as was the case in the 1970s and early 2000s. Unfortunately, with valuations already elevated and little support expected from lower interest rates and falling inflation, absolute returns are likely to be lower than we have enjoyed of late.

The wild card is the extent to which AI will fuel productivity gains across the economy. Even if the optimists are right (and there are plenty who are instead raising big concerns about the end of capitalism in the face of huge job cuts), there are plenty of other concerns. The benefits of globalisation that we enjoyed in the last equity supercycle (EM in particular) are unlikely to be repeated and may be partially reversed whilst the cost of capital is also unlikely to fall due to rising govt. debt, demographics and weaker world trade.

On a more positive note, this should be a good environment for stock picking as the gap between winners and losers is high across sectors/regions and styles. To add some context: the average daily correlation of stock performance with the MSCI ACWI is as low as it has been in the past 25 years and a third lower than the average over the same period. Similarly, the average pairwise correlation (i.e. how similarly are stocks moving) is also close to all-time lows and trending lower. At the same time, the dispersion in performance between index stocks (measured by 12 month returns for MSCI ACWI constituents) is 20% higher than the historical average (2000-2025) regardless of whether this is measured across the whole market or within sector or region. CBOE's options derived dispersion index for the S&P 500 paints the same picture.

In summary, despite increasing concerns about the longer-term prospects for equities, current institutional positioning continuing to feel constructive, rather than exuberant and ongoing momentum into year-end feels like the path of least resistance. That said, the pace of US interest rate cuts and tariffs noise will continue to fuel investor caution, particularly given the precarious geopolitical backdrop. Small and mid-caps may continue to perform well alongside big tech, provided the Fed delivers rate cuts. However, regardless of the policy path, we would still focus on higher-quality names with stronger balance sheets. While value is seeing a revival beyond the index heavyweights, we remain highly focused on avoiding value traps. Cheap stocks do not necessarily offer the margin of safety that Ben Graham advocated nine decades ago. In other words, we are being careful not to conflate cheap valuation with low risk.

Above all, we would advocate stepping back from the macro and attempting to predict short term market movements. Whilst being aware of the top-down risks, we will continue to identify compelling stocks on a bottom-up basis, particularly given the unusually wide range of performance dispersion across the market at present. Focusing on both Value and Quality has served us very well during the wild swings in sentiment over the past five years and will remain the anchor of our stock selection going ahead.

## Active Ownership

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The QEP investment team works in close collaboration with Schroders' Sustainable Investment team to facilitate our engagement activity. Company engagements play an important role in our process, with the information gained helping us to understand the sustainability issues corporations face and the specific strategies in place to address them. It also allows us to promote change and make clear our transition expectations for the companies in which we invest. The central store of engagement information available to us, covering all Schroders firmwide engagements, also provides useful qualitative information on issues that may otherwise be difficult to capture from traditional ESG data sources. Schroders' engagement blueprint includes six priority engagement themes capturing issues relating to environmental (climate change, natural capital & biodiversity), social (human rights, human capital management, diversity & inclusion) and corporate governance.

A range of companies held across the QEP investment desk were engaged with on various environmental, social and governance topics during the third quarter. We engaged with US bank Wells Fargo on the issue of climate change, discussing its climate strategy, as well as human capital, diversity and sustainability reporting. The company outlined its approach to climate risk, emphasizing their alignment with clients and business opportunities, particularly regarding their financing activities in the renewables and electric vehicles space. Wells Fargo also communicated their 2030 sustainability goals and changes to scope 3 reporting. They underscored climate risks as a key concern and have integrated it into their Enterprise Risk Management process and underwriting procedures. The discussion on human capital revealed progress in their business model and company culture, with a particular focus on customer satisfaction and complaint handling. Lastly, they expressed a commitment to diversity and sustainability reporting and aim to improve the provision of relevant information to investors.

We also engaged with Tencent on our blueprint theme of human rights. Tencent continues to make progress in strengthening its governance on data privacy and cybersecurity. The company actively engages with ESG ratings agencies to communicate its sustainability improvements and has noted positive momentum with upgrades from both MSCI & Sustainalytics. As a UNGC signatory, Tencent has committed to improving human rights principles. We encouraged the company to formalize this commitment through a human rights policy. On data privacy, Tencent communicated that they evaluate each request for data from third parties based on legal grounds, necessity, and its privacy policies, sharing only strictly required information. Further, while Tencent's messenger app WeChat cannot implement end-to-end encryption due to China's national cybersecurity requirements, Tencent does apply internal encryption measures for data storage and transmission. We will continue to monitor progress on our key requests, including publishing a human rights policy, formalizing an ethical AI framework, and increasing transparency on data privacy practices.

Our stewardship process extends to a proactive voting programme, a mechanism we leverage using the weight of Schroders' asset base and associated voting rights to drive our engagement priorities. We make considered use of our voting rights, acting in line with our fiduciary responsibilities in what we deem to be the best interests of our clients. As a firm, Schroders votes on all resolutions unless we are specifically restricted from doing so with all voting carried out by Schroders' corporate governance specialists. We voted at over 200 meetings and almost 2,000 resolutions for companies held across the QEP desk in the third quarter of 2025. Within these votes, over 7% were not with management. Votes against management were focussed on compensation plans, the election of directors or auditor related. For example, we voted against European online retailer Prosus and their executive remuneration proposal as the performance period for the long-term incentive is not sufficiently long. We also voted against Snowflake's board proposal due to concerns around diversity on the board and its overall composition.

## Important Information

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