Schroder Global Core Fund (Wholesale Class)

Fund commentary

Global equity markets experienced a significant rotation through the third quarter, with rapid changes in market leadership. Against this backdrop, relative performance recovered meaningfully from early quarter weakness, leaving the strategy only modestly behind over Q3 and still comfortably ahead over the year to date.

Healthcare and Energy were material detractors over the quarter. Within Healthcare, weakness was concentrated in health equipment names, alongside more modest headwinds from biotechnology and pharmaceuticals. Energy also weighed, primarily through exposure to refiners, while Materials detracted through chemicals and metal refining.

These losses were largely offset by specific areas within Industrials. Strong stock selection within manufacturing was the standout contributor, alongside freight, although headwinds from construction companies detracted. Communication Services exposure was also additive, led by holdings in integrated and wireless telcos. Information Technology further contributed, albeit modestly, with gains from both semiconductors and application software holdings.

Looking ahead to Q4, the portfolio remained broadly diversified with continued focus on high quality, fundamentally strong businesses trading at attractive valuations. We continue to balance exposure to value opportunities alongside structural growth and select defensives. Having reduced exposure to some of the more crowded momentum and higher beta areas entering the third quarter, discipline around position sizing, profit taking and rebalancing remained paramount as market leadership became increasingly volatile.

During the quarter, we used periods of market volatility to rebalance the portfolio at the margin while maintaining our core convictions. Financials exposure was reduced overall, with profits taken in selected banks, including US simple banks, as the rate backdrop evolved. Within the sector, capital was increasingly focused on life & health insurers where we continue to see attractive valuations, strong balance sheets and compelling return profiles. Healthcare was increased, with exposure broadened beyond pharmaceuticals and health providers into health equipment, biotech and the wider life sciences supply chain. Communication Services also remains a source of selective defensive exposure through integrated and wireless telecommunications. Utilities were reduced slightly following continued strength across select names, with capital reallocated elsewhere.

Information Technology remained at a modest underweight, although exposure moved closer to neutral during the quarter as more attractively valued opportunities became available. Despite elevated volatility and continued crowding concerns, the Technology sector remains essential to ongoing earnings growth. We retain exposure where earnings support, margin expansion and fundamental momentum is present, with a focus on superior stock selection to drive alpha generation in this space. Within Industrials, our largest sector overweight, we maintain exposure to companies directly benefitting from the increased Capital Expenditure to build out the AI ecosystem. Manufacturing and construction companies are key allocations in the space, with preferred names exhibiting improving fundamentals as a result of this increased AI spend.

The strategy enters the final quarter with its largest sector overweights in Industrials, Healthcare and Financials. Within Industrials, manufacturing remains the principal source of overweight, complemented by selective exposure across construction and environmental services. Healthcare exposure is led by pharmaceuticals alongside an increasingly diversified allocation across the Healthcare industries, while Financials remains focused on complex banks and life & health insurers. Consumer Staples and Consumer Discretionary remain as larger underweights, alongside Materials and Utilities.

Regionally, North America remains the portfolio's largest overweight, although exposure was reduced over the quarter. Continental Europe was increased and has moved to a modest overweight, while the Emerging markets allocation remains marginal. The UK continues to be held underweight following further reductions, reflecting better opportunities across the global opportunity set elsewhere. Japan and Pacific ex Japan are also small underweights versus the benchmark.

Market review

Global equities made modest gains in the third quarter of 2026, but the headline return concealed a volatile period marked by sharp reversals across sectors, styles and individual stocks. The quarter was shaped by a combination of resilient economic growth and strong corporate earnings alongside a renewed energy shock, renewed monetary tightening and a sharp sell-off in government bonds. The war in the Middle East pushed oil prices back above $100 per barrel, adding to inflation concerns, while renewed tariff announcements and rising borrowing costs created a more challenging backdrop for investors. Nevertheless, equities marched higher during the quarter as earnings estimates continued to rise and profit expansion continued.

Developed markets gained 1.9% over the quarter, taking their year to date return close to 11.8%. US equities continued to make progress, outperforming Developed markets more broadly, while markets outside the US recorded more modest gains and Emerging markets slipped. Regional performance was highly dispersed. Japan and Pacific markets were among the strongest performers, helped by particularly good returns from Value pockets. The UK kept pace benefitting from its greater exposure to Energy and Resource names. Continental Europe struggled, declining in absolute terms, as higher energy costs and weaker growth expectations weighed on sentiment. Within Emerging markets, weakness in Asia was partly offset by firmer returns from Latin America and EMEA, both markets with greater exposure to commodity prices.

From a sector perspective, Energy was the clear leader as higher oil prices improved the earnings outlook for producers and refiners. Technology, Healthcare and Communication Services also advanced, although performance within Technology was dispersed by industry and company. Software was particularly strong, while semiconductors gave back some of their exceptional gains from earlier in the year. Not surprisingly given the rise in bond yields, Utilities and Real Estate were among the weakest areas, alongside Industrials and Consumer Discretionary.

There was a clear style narrative in Q3. Value outperformed Growth across most major markets, while Momentum reversed sharply. Large companies also held up better than mid and small companies as higher borrowing costs placed greater pressure on more interest rate sensitive businesses. For all the resilience shown by major indices, the average stock had a much tougher quarter than headline numbers suggest.

Outlook

Entering the final quarter, our base case hasn't changed dramatically from how we started the year. We continue to regard the backdrop as late cycle rather than end cycle. Growth remains resilient, profits are still advancing and capital expenditure remains an important source of economic support. The balance of risks has, however, become less forgiving. The question is no longer simply whether the global economy can continue to expand, but whether earnings and investment can continue to justify current expectations in a world where capital is more expensive and the market's strongest themes are already well recognised.

Even amongst all the noise in recent months, it's been earnings which continue to be the principal support for equities. Market gains continue to be driven more by profit delivery than by broad multiple expansion, as the current AI driven CapEx cycle continues to benefit a wider range of companies than the Technology sector alone. Manufacturers supplying components, construction companies involved in the physical buildout, utilities meeting rising power requirements and financial institutions supporting the financing cycle are all participating in the opportunity. Alongside AI, increased investment in defence, energy security, infrastructure and supply chain resilience is broadening the sources of capital expenditure and corporate earnings support. That breadth is encouraging, but it also raises the bar for further gains. Strong results are increasingly required just to validate existing prices, while weaker guidance or any form of perceived disappointment is met with a harsh market reaction.

Within AI, the opportunity is becoming even more selective. Hyperscaler capital expenditure is still expected to increase in the coming years, although we expect the pace of growth and the scale of positive surprises to moderate. This should continue to benefit the broader supply chain including semiconductors, memory, data centres and power infrastructure, but the focus is steadily shifting from how much can be spent towards what that spending can actually earn. The key risk is that spending and earnings revisions slow before sufficient revenues emerge to justify the investment. Greater scrutiny is therefore likely to fall on monetisation, returns on invested capital and the durability of margins.

That scrutiny has also made market leadership unusually unstable with Momentum experiencing extreme swings. Notably, the companies and industries carrying the Momentum style's performance have changed repeatedly over the course of the year. The energy scarcity trade that followed the escalation of conflict in the Middle East gave way to renewed interest in AI infrastructure as the initial oil shock faded. The selloff in leading AI and semiconductor names that began in June then deepened in July as energy regained ground, before technology reasserted itself in August. Our observation continues to be that Momentum is becoming less a style exposure and more the market's expression of the prevailing narrative. And the prevailing narrative has become prone to ever more frequent shifts, leading to these increased Momentum rotations.

Further, this has been amplified by the way markets now trade, and the structural shifts we described last quarter have become more pronounced. Low correlations and high dispersion mean that stocks are moving more independently, reflecting their own fundamentals, news and stock specific trading volumes. However, it can take time for this price discovery to assert itself as ETF utilisation and basket trading reward and penalise themes on aggregate with no appreciation of idiosyncratic risks. Leverage and the use of options adds further to volatility and price movements, and so risk management is increasingly important to generating and protecting returns. The extent of the divergence in stock performance across the US market was evident in September, when almost half of S&P 500 constituents had a negative beta, the highest share on record. Gains and losses within the index are offsetting one another, keeping headline volatility contained even as individual stocks move sharply. Making large calls on single names now carries increasingly higher relative risk.

Broad regional calls also now appear less useful than identifying different sources of earnings and risk. The US still holds the lion's share of profitable companies with superior structural growth drivers, but also carries the greatest concentration and sensitivity to changes in AI and market sentiment. Asia remains central to semiconductors, memory and hardware, although strong prior gains increase the importance of valuation and entry point. Europe offers selective opportunities across financials, infrastructure, defence, Utilities and Industrials despite continued energy headwinds, while China continues to combine strong export and advanced manufacturing companies with weak property and domestic demand. More generally, geographic diversification alone is not enough anymore, because businesses in different countries may still depend on the same AI investment cycle, commodity price or interest rate outcome. The emphasis must remain on the underlying earnings and risk drivers rather than the region or any broad-based allocation.

This view could be challenged if earnings disappoint as valuations leave little room for error. If AI spending slows before monetisation comes through, or if inflation and fiscal concerns push long term yields higher and create a credit event, markets could quickly react. Balance sheet strength, pricing power, earnings durability and capital discipline remain central to our process, and valuations will become increasingly important as expectations continue to rise. Exposure to the AI theme in our view remains warranted but should focus on companies with credible economics and a realistic path to earning a return on the significant capital being deployed. Effective stock selection continues to be paramount.

Diversification also remains important, although its purpose is not simply to own more stocks, sectors or regions. It is to combine genuinely different sources of earnings and risk so that portfolio outcomes are not dependent on a single theme or market regime. This is particularly relevant when benchmark concentration, low correlations and elevated stock level volatility mean that even modest active positions can have an outsized effect on relative performance. The opportunity set retains attractive pockets, but the road ahead is unlikely to offer easy beta. Delivering alpha consistently will require fundamental conviction to be translated into appropriately sized positions, balanced across distinct risk drivers, with the same discipline applied to portfolio construction, implementation and risk management as to company analysis and stock selection.

Active Ownership

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 environmental, social and governance topics over the third quarter of 2026. We engaged with Microsoft on multiple topics, including the credibility of its pathway to becoming carbon negative by 2030, particularly as the expansion of cloud and artificial intelligence infrastructure is increasing company emissions. Microsoft acknowledged that current cloud and AI-related construction volumes remain the dominant near-term emissions driver, whilst reiterating its 'reduce first, remove what remains' approach to emissions. Whilst they expect lower-carbon materials and construction methods to provide benefits moving forwards, they weren't able to provide any definitive timelines. The company also highlighted its portfolio of carbon-removal projects, noting that in 2025 it added 29 removal projects that are expected to contribute to more than 45 million metric tons of carbon removal over the next three decades.

Another topic we engaged Microsoft on was the environmental and social impacts associated with data-centre growth, including water use, local infrastructure and mineral traceability. This included encouraging more transparent reporting on how these risks are identified and managed. Microsoft stated that its Community-First AI Infrastructure work is overseen by the Board's Environmental, Social and Public Policy Committee, whose charter was updated to specifically include oversight of infrastructure and datacentre localisation, but acknowledged that team KPIs and datacentre-specific grievance-resolution statistics are not currently disclosed. On responsible minerals, the company follows an OECD-aligned process combining supplier disclosures, smelter and refiner assessments, risk screening and supplier engagement. Further, suppliers are required to move away from non-conforming facilities where concerns cannot be resolved. We will continue to engage with Microsoft on their approach and remaining disclosure gaps.

We also engaged with retailer Tapestry on supply-chain resilience, human-rights due diligence and responsible materials. The company reported that it has completed physical climate-risk analysis across approximately 250 sites and is using the findings to work with suppliers on energy efficiency and energy independence. Environmental performance has now been added to supplier scorecards alongside social compliance and operating measures such as delivery and quality. Better scorecard performance can support increased order allocation, and Tapestry said it has observed this incentive influencing supplier behaviour positively.

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 on more than 1,700 resolutions for companies held across the QEP desk in the third quarter of 2026. Within these votes, more than 11% were not with management. Votes against management were focussed on board related issues and compensation plans. For example, we voted against NetApp's board election as the proposed directors caused concerns around the diversity on the board. We also voted against Airtel Africa's remuneration proposal as the proposed executive director salary increases substantially exceed those awarded to the wider workforce, and we have concerns with the concurrent increases to salary and variable pay.

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