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Schroder ISF* Global Multi-Asset Balanced

Fund Manager: Ingmar Przewlocka, Anna Podoprigora | Fund update: December 2024

Performance overview

– The fund's performance was negative in December. Global shares, as measured by the MSCI World index, were mixed. US shares fell while eurozone and Japanese shares gained.

Drivers of fund performance

– The portfolio lost some ground, driven by duration and currency exposure.

– The main fixed-income detractors were US and European government bonds. Investment grade, high yield and emerging markets debt were roughly flat.

– Currency exposure detracted, with emerging markets again underperforming. In the cash-like sleeve of the portfolio, performance was helped by the income from our short-duration (less than 12-month) securities.

– Equities were slightly negative overall. Global and European equities, Japan and China were modestly positive. US equities detracted, notably our small-cap exposure. UK equities detracted marginally while emerging markets were roughly flat.

– Alternatives, consisting of commodities and insurance-linked bonds, were modestly positive.

Portfolio activity

– We maintained relatively aggressive equity-market exposure while making some adjustments to tactical equity allocation. For example, taking profits on Nasdaq and S&P futures and adding some exposure to US regional banks. We also added some German DAX exposure.

– We hit our price target and took profits on the NYSE FANG+ index position we added in September, comprising growth stocks of next-generation technology and tech-enabled companies.

– We lowered duration which came primarily from profit taking as we sold 30-year German, UK and US interest-rate positions. We added some 10-year exposure as yields rose earlier in the month.

– In commodities, we tactically topped up our silver ETC (exchange-traded commodities) position and added to our diversified commodity swap ETF (exchange-traded fund). We used equity index futures to add back some European basic resources exposure.

Outlook

– Year-end predictions are always an unreliable business, but it's safe to assume that not all the strategies that worked in 2024 will be the winners in 2025.

– **Equities will be more about alpha, less about beta.** After the gains of the past year, it's hard to see US equity momentum continuing at the same pace, implying that broad market exposure (beta) is unlikely to be as much of a return driver as it was in 2024. This will make alpha—excess returns from selecting the outperforming countries, securities and sectors—relatively more important. And it's likely that we'll use our tactical overlay for a more "normal" combination of offence and defence as the year progresses.

– **Duration will be a more nuanced story.** The duration story in 2025 will be more nuanced. The likelihood of further cuts is more uncertain, and we may see a divergence in inflation outlooks, with the US running hotter than Europe. When inflation concerns rise, the correlation can turn positive, as it did in 2022 when both bonds and equities fell simultaneously. One silver lining in the latter scenario is that while bonds become less useful as a diversifier, they become more useful as a source of "carry" because yields rise. The yields we locked in on short-duration bonds during earlier selloffs have been a significant source of return in the past two years, and the carry strategy will remain an important part of the toolkit.

– **Using the full opportunity set will be just as important.** We're always looking for sources of diversification beyond the traditional bond-equity mix. For example, adding insurance-linked catastrophe bonds worked well for us in 2024. A key area where we've become more active, and will continue to focus on, is commodities. The case study below recaps the way we've worked with this asset class over the past two years.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Calendar year performance (%)

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.

Year	Fund	Comparator benchmark[1]	Target benchmark[1]
2024	7.1	5.6	6.7
2023	7.0	6.2	6.6
2022	-8.5	-11.1	3.4
2021	8.5	3.7	2.4
2020	6.0	1.4	2.6
2019	12.0	7.7	2.6
2018	-6.9	-5.1	2.7
2017	3.7	2.0	2.7
2016	0.6	1.9	2.7
2015	-2.9	0.9	3.0

Source: Schroders, as at 31 December 2023. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares. [1]Target benchmark is 3m Euribor +3%. Comparator benchmark is Morningstar EUR Cautious Allocation Global Category. As of 15 August 2022, the target is replaced from 3m Euribor +3% to a comparator of the Morningstar EUR Cautious Allocation Global Category. Please see the respective fund factsheets for the performance of other share classes.

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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.

Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Currency risk / hedged share class: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

High yield bond risk: High yield bonds (normally lower rated or unrated generally carry greater market, credit and liquidity risk.

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.

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.

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.

Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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