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Schroder ISF* Global Multi-Asset Income

Fund Managers: Remi Olu-Pitan, Dorian Carrell | Fund update: May 2024

Performance overview

- Global shares rose in May with developed markets outperforming emerging markets.
- The US led the way, supported by strong corporate earnings, and hopes that interest rate cuts are still en route by 2024's end, despite data showing inflation remaining sticky at levels above the Federal Reserve's (Fed) 2% target. Fed chair Jay Powell said that there had been a "lack of progress" on bringing inflation down, but that interest rate rises were unlikely.
- The US technology sector was the month's big winner with the NASDAQ Index rallying 7%.
- The news on eurozone inflation was less welcome, pushing up yields with May's preliminary inflation release showed higher-than-expected core inflation, driven by the service sector.
- Credit markets were also positive across the board, with the US outperforming their European counterparts, given corporate strength and the more supportive rate backdrop outlined above.
- EM debt also finished in the black, with several EM central banks kicking off their own easing cycles.

Drivers of fund performance

- The fund rose in May with our core global equity strategies making up the bulk of returns, benefitting from our style agnostic approach which outperformed more traditional income areas of the equity universe.
- Europe also made a meaningful contribution, both on the credit and equity side, where hedging positions were a minor detractor.

Portfolio activity

- Top level asset allocation was broadly flat, although we did shift some Japanese equity exposure to the UK and emerging markets on valuation grounds.

Outlook/positioning

- Our economic forecast remains for a benign growth outlook powered by a resilient labour market in the US and a global manufacturing recovery. Our challenge is that our view is very much reflected in market performance with interest rate expectations now more realistic and higher equity prices.
- We maintain our positive stance in equities as corporate earnings should be supported by the economic backdrop. We retain our barbell approach to equities, incorporating what our analysts believe are the most attractive global growth and income names, with the best potential prospects globally.
- This combines a meaningful exposure to growth names in the US, alongside favoured cyclical areas such as Europe, where we remain buoyed by the powerful combination of a recovering economy, benign rate environment and attractive valuations.
- Within bonds, we remain concerned about duration given the risk of sticky inflation and medium-term concerns about fiscal credibility. On credit, we are starting to turn more cautious on investment grade debt given very tight spreads and questions over the resilience of the "bid for yield" in what remains a volatile rate environment. Rather than taking a strong view on rates, we continue to simply step up into securitised from investment grade credit, boosting both yield and credit quality. With US 30 mortgage rates now over 7% and housing supply depressed, we are essentially taking the view that the incentive to remortgage or move is extremely limited. Put simply, securitised debt gains while nothing happens.
- We maintain our long position on the US dollar as a hedge against rates staying higher for even longer than markets expect.

*Schroder International Selection Fund is referred to as Schroder ISF throughout
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Calendar year performance (%)

Year	Fund Net A Acc	Fund Net C Acc
2023	11.5	12.2
2022	-12.9	-12.3
2021	4.6	5.2
2020	2.8	3.4
2019	12.2	12.9
2018	-5.4	-4.8
2017	5.5	6.1
2016	7.4	8.1
2015	-6.9	-6.3
2014	2.8	3.4

Source: Schroders, Thomson Reuters, 31 December 2023, A Acc & C Acc $ share class, net 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.

Risk considerations

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.

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 shareclass: 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.

Derivatives risk: Derivatives may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

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.

IBOR risk: 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.

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.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

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.

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.

Important information

The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). For information on sustainability-related aspects of this fund please go to www.schroders.com.

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