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Schroder ISF* Global Multi-Asset Income

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

Performance overview

- Global equities were broadly positive in June, although again it was technology stocks leading the charge, with investors sticking to the comfort of the familiar mega cap names in the US.
- Eurozone equities moved lower, hit by uncertainty caused by President Macron's surprise announcement of parliamentary elections in France. Meanwhile, in Mexico, a landslide victory for the leftwing Morena party caused heavy losses in Mexican assets and reverberated in other markets, including Brazil.
- Turning to bonds, in the US, Treasury yields fell in anticipation of a Federal Reserve (Fed) rate cut, following an improvement in the Consumer Price Index (CPI). However, yields increased in the final few days of the month, perhaps reflecting the impact of President Biden's poor performance in the TV debate, and rising odds of a Trump victory in November. In Europe, the ECB delivered the highly anticipated rate cut but were at pains to confirm this was not the start of a rate-cutting cycle. This helped support positive, albeit muted, returns across developed credit markets.
- The stronger US dollar acted as a headwind to EM local bond markets, although hard currency sovereign and corporate markets posted positive returns.

Drivers of fund performance

- The fund made gains in June, with our tilt towards large cap US tech stocks unsurprisingly the key driver of returns. US high yield was another positive contributor, with our communication services holdings, in particular, moving higher.
- Our emerging local currency bonds were weaker over the month, particularly our Latin American exposure.

Portfolio activity

- We added to equities over the month, focusing on US growth names. Given the trend in earnings forecasts, as well as investor uncertainty as we move through an election heavy year, we believe the relative outperformance of these stocks could well continue.
- With softening inflation data making rate cuts more likely, we tactically increased the portfolio's duration from 2.8 to 3.0 years. Structurally we continue to expect a higher for longer environment.
- Our focus remains on re-enforcing our credit quality adjusted yield identifying areas of the market we believe will act as effective diversifiers in the future. As a result, we introduced a new allocation to Australian investment grade, which offer a higher yield than US investment grade, with a higher credit rating and half the duration.

Outlook/positioning

- Economic data continues to confirm our expectations of a soft landing, with activity remaining positive and inflation moving in the right direction for now. Several major central banks have started to cut rates, and we expect the Bank of England and US Federal Reserve to shortly follow suit.
- We remain positive on equities, with corporate earnings continuing to be supported by the robust economic backdrop. We retain our balanced approach, combining the most attractive global growth, and income names. We favour the US given its appeal to investors in an environment of rising uncertainty, alongside favoured cyclical areas such as Europe, given the powerful combination of a recovering economy, benign rate environment, and attractive valuations. Despite the political noise, we believe the outcome of second round of the French elections should help calm market concerns.
- We retain our cautious stance towards investment grade credit given very tight spreads, particularly given the lack of yield pickup relative to cash. Against this backdrop we continue to seek out diversifiers, with the emphasis on quality-adjusted yield; here securitised debt remains interesting, helping boost both yield and quality relative to US investment grade.

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

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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Schroder Investment Management (Singapore) Ltd

138 Market Street #23-01 CapitaGreen Singapore 048946

Telephone: 1800 534 4288 Fax: +65 6536 6626

Registration No.: 199201080H