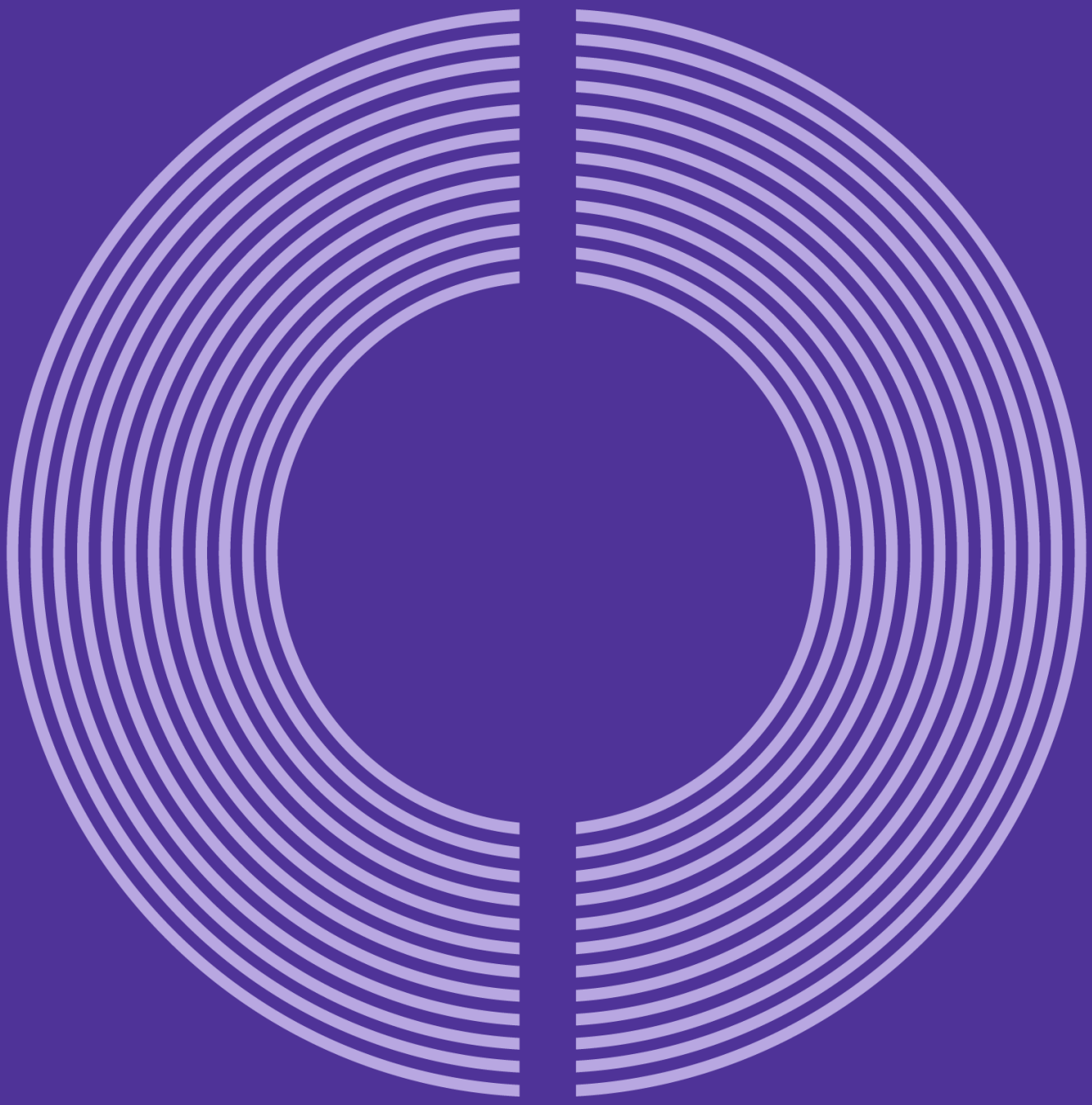
Schroder Investment Solutions

Schroder Strategic Index Model Portfolios - Quarterly Bulletin

Q4 2023



Schroders

Marketing material

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Introduction

Your portfolio is invested across a diverse range of investment markets, with the aim of achieving your long-term objectives.

In this Quarterly Bulletin we provide a review of the performance of investment markets over the quarter, and outline the current market outlook from our multi-asset team.

We then show you how the portfolios have performed.

To help you put this in some context, we explain where the main positive and negative contributions to performance have come from.

We also update you on any changes that we have made to the portfolios and the reasons why.

We hope that you find this information useful.

Alex Funk
Chief Investment Officer
Schroder Investment Solutions

Market performance

Q4 2023

The importance of diversification

The blend of assets in your portfolio is likely to be the dominant influence on your long-term returns. Spreading your investments across a variety of markets can help you to achieve your investment objectives while taking less risk than investing in any single market. The table below shows the varying level of market returns, on a calendar year basis, since 2019. The best performing asset class in any one calendar year (at the top) can potentially deliver the worst returns in the following year (at the bottom). Spreading investments across a range of markets helps avoid 'putting all your eggs in one basket' and gives you a better chance of achieving more consistent returns.

Please remember that 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 amounts originally invested. The return may increase or decrease as a result of currency fluctuations.

2019	2020	2021	2022	2023
US Equities 25.7	Asia Ex Japan Equities 21.2	Commodities 41.6	Commodities 41.9	US Equities 18.9
Europe ex UK Equities 20.0	US Equities 16.2	Global Property 28.4	UK Cash 1.4	Europe ex UK Equities 14.8
UK Equities 19.2	Emerging Market Equities 14.7	US Equities 27.6	UK Equities 0.3	Japanese Equities 13.3
Global Property 18.3	UK Index-linked Gilts 11.0	UK Equities 18.3	Global High Yield Bonds -1.7	UK Corporate Bonds 9.8
Japanese Equities 14.6	Japanese Equities 9.5	Europe ex UK Equities 16.7	Japanese Equities -4.1	Global Corporate Bonds 8.0
Emerging Market Equities 13.9	UK Corporate Bonds 9.1	UK Index-linked Gilts 4.2	Europe ex UK Equities -7.6	UK Equities 7.9
Asia Ex Japan Equities 13.6	UK Gilts 8.3	Japanese Equities 2.0	US Equities -9.4	Global High Yield Bonds 7.6
Commodities 13.1	Europe ex UK Equities 7.5	Global High Yield Bonds 1.9	Asia Ex Japan Equities -9.6	Global Treasury Bonds 5.8
UK Corporate Bonds 11.0	Global Corporate Bonds 7.2	UK Cash 0.1	Emerging Market Equities -10.0	UK Cash 4.8
Global Corporate Bonds 10.6	Global Treasury Bonds 4.6	Global Corporate Bonds -1.0	Global Treasury Bonds -11.7	Global Property 4.6
Global High Yield Bonds 8.2	Global High Yield Bonds 3.7	Emerging Market Equities -1.6	Global Property -14.9	UK Gilts 3.7
UK Gilts 6.9	UK Cash 0.2	Global Treasury Bonds -2.0	Global Corporate Bonds -15.3	Emerging Market Equities 3.6
UK Index-linked Gilts 6.4	UK Equities -9.8	UK Corporate Bonds -3.3	UK Corporate Bonds -19.3	UK Index-linked Gilts 0.9
Global Treasury Bonds 5.5	Global Property -11.0	Asia Ex Japan Equities -3.8	UK Gilts -23.8	Asia Ex Japan Equities 0.0
UK Cash 0.7	Commodities -26.1	UK Gilts -5.2	UK Index-linked Gilts -33.6	Commodities -9.7

YTD	Q4 2023
US Equities 18.9	Global Property 10.7
Europe ex UK Equities 14.8	UK Index-linked Gilts 8.7
Japanese Equities 13.3	UK Corporate Bonds 8.5
UK Corporate Bonds 9.8	UK Gilts 8.1
Global Corporate Bonds 8.0	Europe ex UK Equities 7.6
UK Equities 7.9	Global Corporate Bonds 7.3
Global High Yield Bonds 7.6	US Equities 7.0
Global Treasury Bonds 5.8	Global Treasury Bonds 5.3
UK Cash 4.8	Global High Yield Bonds 3.9
Global Property 4.6	Japanese Equities 3.4
UK Gilts 3.7	Emerging Market Equities 3.3
Emerging Market Equities 3.6	UK Equities 3.2
UK Index-linked Gilts 0.9	Asia Ex Japan Equities 1.9
Asia Ex Japan Equities 0.0	UK Cash 1.3
Commodities -9.7	Commodities -14.5

Best performing asset class

Worse performing asset class

Source: Morningstar as at 29 December 2023. Notes: All Indices in base currency.

Market commentary

Q4 2023

It was a strong quarter for global shares and bonds as the US Federal Reserve signalled that interest rate cuts may be on the way for 2024. Developed market equities outperformed emerging markets amid ongoing worries over China's real estate sector. Crude oil prices fell despite some output cuts.

US shares rallied strongly in the final quarter of 2023 on expectations of imminent rate cuts. The annual inflation rate in the US (consumer price index) slowed over the period from 3.7% in September to 3.2% in October and 3.1% in November. This data reinforced market expectations that the rate hiking cycle in the US may have finished and the Federal Reserve will cut rates in 2024. Top performing sectors were those most sensitive to interest rates, including information technology, real estate and consumer discretionary. The energy sector posted a negative return as crude oil prices fell.

The final quarter of the year was a strong one for eurozone shares, boosted by expectations that there may be no further interest rate rises. The MSCI EMU index (which tracks mid- and large-cap companies in 10 developed markets in the European Economic and Monetary Union) advanced 7.8%. Top gaining sectors included real estate and information technology, while healthcare and energy were the two main laggards, registering negative returns. Shares were supported by softer inflation figures from both the eurozone and the US, which raised hopes that interest rates may not only have peaked, but that cuts could soon be on the way in 2024. Euro area annual inflation fell to 2.4% in November from 2.9% in October.

UK shares rose over the quarter with small and mid-cap indices outperforming the broader market. Domestically focused stocks performed very strongly while overseas "inbound" bids for smaller UK companies continued to pick-up. This occurred as hopes build further that interest rates may have peaked. UK inflation moderated more than expected over the period with the Office for National Statistics (ONS) revealing that the consumer prices index had dropped to 3.9% in November. Some of the large internationally exposed and economically sensitive areas of the market performed well, especially in the industrial and financial sectors. More generally, however, larger companies were held back as sterling performed strongly against a weak US dollar.

Japanese shares ended the quarter higher as gains made in November outweighed some weakness in October and December. In October, worries that US interest rates may remain higher for longer, given still strong inflation, weighed on market sentiment. Additionally, heightened geopolitical risks, such as renewed conflict in the Middle East, were a cause for concern. However, investor sentiment improved, primarily due to weaker-than-expected macroeconomic figures in the US leading to expectation of US rate cuts. Although the US market continued to rise in December, the Japanese equity market lagged as investors became concerned about yen appreciation.

Despite pressure early in the quarter, when rising bond yields and conflict in the Middle East weighed on emerging market (EM) returns, overall EM shares were strong in Q4 2023, albeit behind developed market equities. Signs of a "soft landing" for the US economy and increased expectations for interest rate cuts in 2024 were supportive. However, China continued to be a drag on broad EM performance. Poland was the top performing EM over the quarter as markets welcomed Donald Tusk's election as prime minister at the head of a pro-EU liberal coalition government.

Market commentary

Q4 2023

The final quarter of the year was a very positive one for fixed income markets, marking their best quarterly performance in over two decades, according to the Bloomberg Global Aggregate indices. The major driver of this performance was a perceived shift in monetary policy direction, from a "higher-for-longer" stance to prospective rate cuts. As markets priced in easing conditions, government bond yields fell across the board. Despite a slowing growth outlook, the corporate bond market staged an impressive rally on hopes that a deep recession could be averted as financial conditions eased. High yield markets outperformed investment grade in both the US and Europe, with significant outperformance over government bonds. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

The S&P GSCI Index (a composite index of commodities that measures the performance of the commodities market) declined in the fourth quarter, with price gains for precious metals and industrial metals failing to offset weaker prices for agriculture, energy, and livestock. Energy was the worst performing component, with sharply lower prices for natural gas, crude oil, and gas oil. Oil prices fell despite output cuts from Opec+ (the Organization of the Petroleum Exporting Countries, plus some other oil-producing countries).

Asia ex Japan shares gained in the fourth quarter. Hopes that US interest rates may have peaked led to renewed investor appetite for equities across the region. All markets in the MSCI AC Asia ex Japan index ended the quarter in positive territory apart from China, where shares fell due to investor concerns over weaker economic growth. The ongoing real estate crisis and uncertainty over China's regulatory regime also weakened sentiment towards Chinese stocks. Taiwan, South Korea, and India were the strongest markets in the region over the quarter, with all three achieving robust growth.

Source: Schroders. **Please note that any past performance mentioned in this document is not a guide to future performance and may not be repeated. Information is provided for illustrative purposes only and should not be considered as a recommendation to buy or sell**.

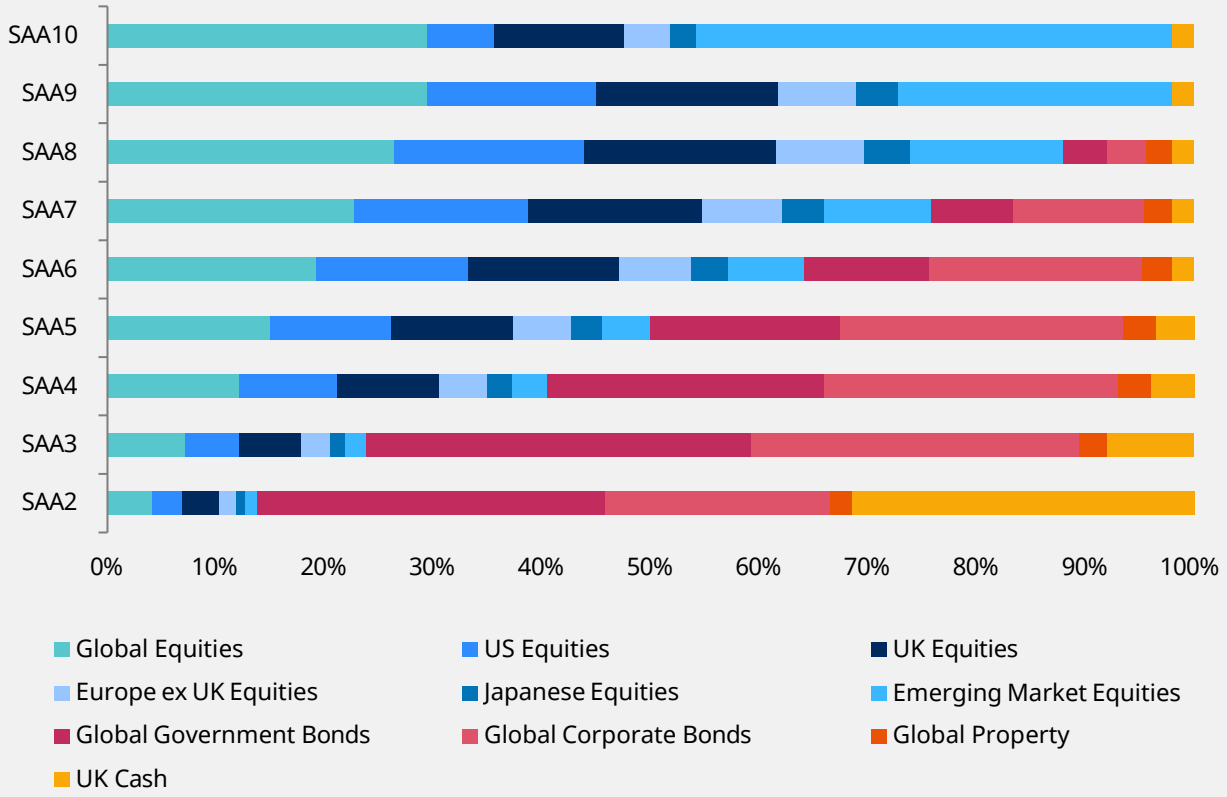
Asset allocation

Q4 2023

We have a robust asset allocation framework with the appropriate balance between asset classes, sectors and regions. Spreading all investments across a well diversified range of assets also helps to reduce risk. With the risk profiles of the Schroders Portfolios agreed, we design the optimal blend of asset classes to maximise returns for each level of risk. The chart below illustrates the asset class diversification across the Schroder Strategic Index Model Portfolios.

When it comes to investing, your goals and attitude to risk are as individual as you are, so a "one size fits all" approach won't do. Your financial adviser will work closely with you to understand what you are aiming to achieve and how much risk you are comfortable with taking. Together, these will determine your "risk profile" on a scale of 2–10 and this will form the foundation of your investment portfolio. A portfolio with the lowest risk level does not mean a risk-free investment.

Strategic Asset Allocation (SAA)

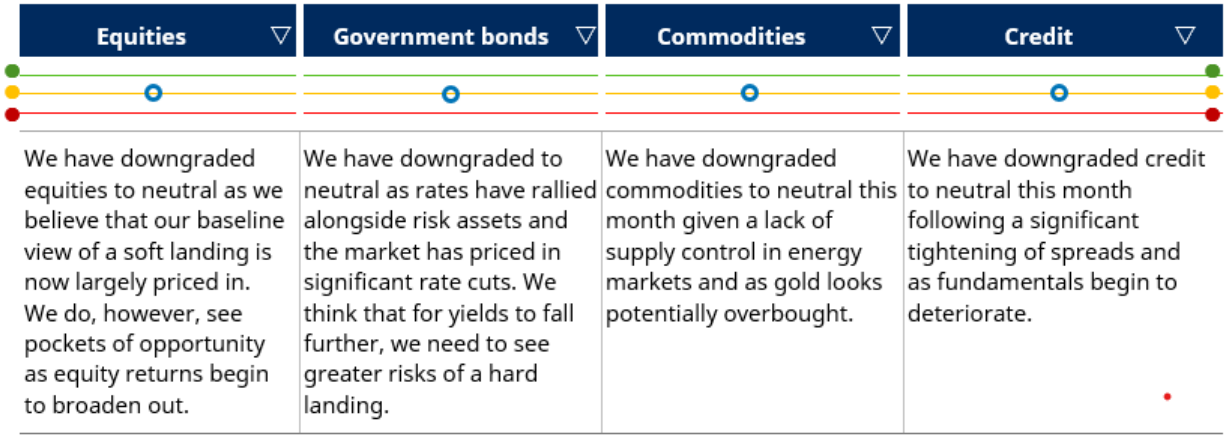


Source: Schroders as at April 2023. The chart illustrates the asset class diversification across the Schroder Strategic Index Model Portfolios 2–10. Please note that the illustration may not show our current asset allocation.

Asset class views

Q4 2023

MAIN ASSET CLASSES



Equities ▽	Government bonds ▽	Commodities ▽	Credit ▽
We have downgraded equities to neutral as we believe that our baseline view of a soft landing is now largely priced in. We do, however, see pockets of opportunity as equity returns begin to broaden out.	We have downgraded to neutral as rates have rallied alongside risk assets and the market has priced in significant rate cuts. We think that for yields to fall further, we need to see greater risks of a hard landing.	We have downgraded commodities to neutral this month given a lack of supply control in energy markets and as gold looks potentially overbought.	We have downgraded credit to neutral this month following a significant tightening of spreads and as fundamentals begin to deteriorate.

Key ● Long/positive ● Neutral ● Short/negative △ Up from last month ▽ Down from last month

EQUITIES

Category		View		Comments
US		●		We maintain our neutral view, with a preference for the equal-weighted S&P 500 index as we expect a broadening out of performance away from the "Magnificent 7" mega cap technology stocks.
UK		●		We maintain our neutral view due to pessimism surrounding the economic outlook while the Bank of England aims to maintain a delicate balance of taming inflation without undue impact on growth.
Europe		●		Improving economic data and cheap valuations make Europe attractive on a relative basis. The European Central Bank (ECB) is also expected to be the first major central bank to cut rates. However, a dovish Federal Reserve (Fed) and US exceptionalism presents a significant risk, and we prefer to maintain our neutral view.
Japan		●	▽	Whilst we continue to like Japan in the long term given its structural growth story, we are downgrading our view to neutral as we expect the yen to appreciate in the short term.
Global Emerging Markets[1]		●		Given that the manufacturing recovery will impact emerging markets in an uneven manner, we have maintained our neutral view.
Asia ex Japan	China	●		We maintain our neutral view on China as weaker demand for housing continues to weigh on growth. We do, however, see early signs of life in the export cycle and bear in mind the possibility of more impactful stimulus measures.
	EM Asia ex China	●		Although we maintain our neutral view, we do recognise the potential for Korea and Taiwan to outperform other emerging markets due to positive demand for semi-conductors.

Source: Schroders, December 2023. Note: The views for equities, government bonds and commodities are based on return relative to cash in local currency. **Please note any past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.**

[1]*Global Emerging Markets includes Central and Eastern Europe, Latin America and Asia.*

Schroder Strategic Index Model Portfolios

Q4 2023

Schroder Strategic Index Model Portfolios performance

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	Q4 2023	YTD	01/01/2023 - 31/12/2023	01/01/2022 - 31/12/2022	01/01/2021 - 31/12/2021	01/01/2020 - 31/12/2020	01/01/2019 - 31/12/2019	01/01/2018 - 31/12/2018	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016	01/01/2015 - 31/12/2015	01/01/2014 - 31/12/2014	Since Inception
Schroder Strategic Index Portfolio 2	**4.63**	**6.64**	**6.64**	**-9.03**	**1.83**	**3.95**	**6.22**	**-1.34**	**2.66**	**11.50**	**1.04**	**7.16**	**50.02**
Inception date 04-01-2011													
UK CPI	0.15	3.96	3.96	10.53	5.39	0.59	1.30	2.10	2.97	1.56	0.20	0.55	44.91
Schroder Strategic Index Portfolio 3	**5.78**	**7.88**	**7.88**	**-11.82**	**4.14**	**6.14**	**9.04**	**-1.98**	**4.62**	**16.83**	**2.14**	**11.47**	**86.93**
Inception date 04-01-2011													
Mixed Investment 0-35% Shares	5.69	6.06	6.06	-10.22	2.57	3.98	8.80	-3.41	5.01	9.06	0.85	5.31	47.36
Schroder Strategic Index Portfolio 4	**5.91**	**9.04**	**9.04**	**-10.96**	**6.42**	**5.86**	**11.68**	**-3.24**	**6.87**	**17.25**	**3.14**	**10.41**	**109.35**
Inception date 04-01-2011													
Mixed Investment 20-60% Shares	5.68	6.86	6.86	-9.67	6.31	3.49	12.08	-5.11	7.20	10.57	1.51	5.04	66.38
Schroder Strategic Index Portfolio 5	**5.89**	**9.67**	**9.67**	**-10.27**	**8.06**	**5.51**	**15.12**	**-4.66**	**9.09**	**19.21**	**3.48**	**8.75**	**120.20**
Inception date 04-01-2011													
Mixed Investment 20-60% Shares	5.68	6.86	6.86	-9.67	6.31	3.49	12.08	-5.11	7.20	10.57	1.51	5.04	66.38
Schroder Strategic Index Portfolio 6	**5.80**	**10.54**	**10.54**	**-9.21**	**9.93**	**5.68**	**16.50**	**-5.60**	**11.25**	**21.42**	**1.61**	**7.61**	**128.66**
Inception date 04-01-2011													
Mixed Investment 40-85% Shares	5.76	8.09	8.09	-10.18	11.22	5.50	15.94	-6.07	10.05	13.28	2.83	4.99	98.90
Schroder Strategic Index Portfolio 7	**5.62**	**11.20**	**11.20**	**-8.10**	**12.13**	**5.66**	**18.45**	**-7.26**	**13.31**	**24.21**	**0.43**	**6.03**	**141.15**
Inception date 04-01-2011													
Mixed Investment 40-85% Shares	5.76	8.09	8.09	-10.18	11.22	5.50	15.94	-6.07	10.05	13.28	2.83	4.99	98.90
Schroder Strategic Index Portfolio 8	**5.38**	**11.71**	**11.71**	**-7.17**	**13.91**	**6.06**	**17.46**	**-6.86**	**15.23**	**27.16**	**-1.90**	**4.57**	**127.21**
Inception date 04-01-2011													
Flexible Investment	5.23	7.30	7.30	-9.13	11.38	7.01	15.64	-6.64	11.09	14.16	2.09	4.83	96.64
Schroder Strategic Index Portfolio 9	**4.90**	**11.43**	**11.43**	**-7.06**	**11.82**	**7.45**	**17.29**	**-7.69**	**17.70**	**29.09**	**-4.18**	**5.92**	**110.52**
Inception date 04-01-2011													
Flexible Investment	5.23	7.30	7.30	-9.13	11.38	7.01	15.64	-6.64	11.09	14.16	2.09	4.83	96.64
Schroder Strategic Index Portfolio 10	**4.38**	**8.97**	**8.97**	**-7.60**	**8.32**	**8.77**	**16.60**	**-7.81**	**19.11**	**32.95**	**-7.26**	**6.73**	**87.24**
Inception date 04-01-2011													
Flexible Investment	5.23	7.30	7.30	-9.13	11.38	7.01	15.64	-6.64	11.09	14.16	2.09	4.83	96.64

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 December 2023. Portfolio returns may vary from individual investor returns due to timings and cash flows. Information is provided for illustrative purposes only and should not be considered as a recommendation to buy or sell.

What are the risks?

Prior to making an investment decision, please consider the following risks:

Capital risk: All capital invested is at risk. You may not get back some or all of your investment.

Counterparty risk: The portfolios may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the portfolios may be lost in part or in whole.

Credit risk: A decline in the financial health of an issuer could cause the value of the instruments it issues, such as equities or bonds, to fall or become worthless.

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

Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. The portfolio 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.

Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.

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

Interest rate risk: The portfolios may lose value as a direct result of interest rate changes.

Leverage risk: The portfolios use derivatives for leverage, which makes them more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss.

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, meaning investors may not be able to have immediate access to their holdings.

Money market & deposits risk: A failure of a deposit institution or an issuer of a money market instrument could have a negative impact on the performance of the portfolios.

Negative yields risk: If interest rates are very low or negative, this may have a negative impact on the performance of the portfolios.

Schroder Strategic Index Model Portfolios

Q4 2023

Portfolio updates

A plot twist

Most markets rose strongly over the final quarter of the year, having retreated over the previous two months. Investors had been anticipating that the US Federal Reserve (Fed) would keep rates at high levels for some time to come but this expectation changed in November following an unexpected fall in US inflation. The Fed subsequently indicated that they are aware of the risk of keeping rates at high levels for too long.

A focus on long term strategic asset allocation

When constructing the Strategic Index Portfolios, we do not express short-term views about the direction of markets. The portfolios maintain a robust asset allocation framework with an appropriate balance between asset classes, sectors and regions.

Looking into 2024 and beyond

At Schroders we believe there are three primary factors at play which we believe will have wide-ranging implications for all investors. Together these form what we call the '3D Reset'.

Firstly, we have Deglobalisation, a trend emerging from rising geopolitical tensions and the need for greater supply chain resilience. Think of it as countries pulling back from global relationships to focus more on their own needs. This trend has been fuelled by geopolitical tensions and recent events like the COVID-19 pandemic, which exposed vulnerabilities in global supply chains. Now, there's a push for countries to be more self-reliant. Secondly, decarbonisation or energy security as economies transition to a new energy mix. This is all about reducing harmful carbon dioxide emissions, especially from our energy sources. We also need to ensure that we have a reliable and affordable supply of this new, cleaner energy. And lastly, demographics, where we see two key trends. One is income inequality, where wealth is distributed unevenly across society. And the other is a reduction in workforce supply, likely due to ageing populations in many developed countries.

These elements are already disrupting the established patterns of the past decade and we continue to incorporate them into our risk management framework and research process to identify opportunities amidst challenges.

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Schroder Strategic Index Model Portfolios

Q4 2023

Portfolio changes

Our approach to managing portfolios involves quarterly rebalancing back to our strategic asset allocation as well as making fund changes based on our current investment views.

Strategic asset allocation involves setting target allocations for different asset classes based on an investor's long-term goals and risk tolerance. We rebalance our portfolios by adjusting the weights of the assets to maintain a desired level of risk or return as per our review in April 2023. Our next review of the strategic asset allocation will be in April 2024.

There were no fund additions or sales over the quarter.

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Schroder Strategic Index Model Portfolios

Q4 2023

Positive contributors to portfolio performance

Vanguard Global Corporate Bond Index Fund	Total return 7.19%

The final quarter of the year was a positive one for fixed income markets as a shift in interest rate expectations led to a decline in bond yields across all major markets. When bond yields go down, their prices go up. The US Federal Reserve (Fed) kept interest rates unchanged throughout the quarter and indicated that they are comfortable with their progress on lowering inflation. Other major central banks, like the European Central Bank (ECB) and the Bank of England (BOE), also held steady on interest rate increases. The Vanguard Global Corporate Bond Index achieved a return of 7.2% for the quarter to end with a return of 8.05% for 2023. The Vanguard Global Corporate Bond Index includes bonds from developed and emerging markets issuers within the Industrial, Utility and Financial sectors.

Fidelity Index World Fund	Total return 6.73%

The Fidelity Index World Fund continued to contribute positively to performance for the portfolios. This was once again led by the allocation to US companies which achieved a return of 4.8% for the quarter. Companies within the technology sectors had the strongest performance, followed by financial services and industrials. Energy companies which make up around 5% of the index fell in value. For 2023, the fund achieved a positive return of 17%.

HSBC Global Government Bond Fund	Total return 5.57%

After detracting from performance in the third quarter of 2023, the fund recorded positive performance for the final quarter. This contributed significantly to a return of 5.4% overall for 2023. This was supported by the fall in bond yields which meant bond prices rose. The US Federal Reserve (Fed) kept interest rates unchanged throughout the quarter and indicated that they are comfortable with their progress on lowering inflation. Other major central banks, like the European Central Bank (ECB) and the Bank of England (BOE), also held steady on interest rate increases.

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Schroder Strategic Index Model Portfolios

Q4 2023

Negative contributors to portfolio performance

All underlying funds held in this portfolio contributed positively to performance in Q4 2023, so there are no underlying funds to list in this section.

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Glossary

Absolute return
A type of investment strategy that aims to make a positive return on investment regardless of how well the overall market is performing. This means that even if the market is going down, an absolute return strategy will still try and make money.

Active fund/actively managed
A portfolio of investments that is selected by a professional investment manager and managed on an ongoing basis with the aim of achieving an outperformance objective.

Alpha
A measure of investment performance above the market. For example, an equity fund delivers returns of 9%. If the broader equity market has delivered 4%, the fund has delivered 5% of alpha.

Alternatives
A collective term for asset classes other than equities, bonds and cash. Alternatives include real estate, private equity, hedge funds and commodities.

Annualised Return
The amount of money an investment makes on average each year (expressed as a percentage). For example, over three years a fund delivers returns of 4%, 6% and 3% - its annualised return is 4.3%.

Assets
Any financial instrument that has value and can be used to generate income or grow in value. This can include equities, bonds, property and commodities. The goal of investing in assets is to generate a return on investment, either through capital growth, income, or both.

Asset Allocation
The target investment split between different asset classes in a portfolio. This is based on the long-term risk and return characteristics of asset classes and is designed to reflect an investor's investment objectives and attitude to risk.

Benchmark
A standard, usually an investment index, that a fund's performance can be measured against. For example, a UK equity fund is managed against the FTSE100 index. If the fund does better than the index, it has outperformed; if the fund has done worse, it has underperformed.

Bonds
A type of fixed-income investment that allow investors to lend money to an issuer, such as a corporation (corporate bonds) or government (gilts or treasury bonds), in exchange for regular interest (coupon) payments and the return of their principal investment at maturity. Bonds are typically issued with a fixed interest rate and a specific maturity date, which can range from a few months to several decades.

Bottom up
An investment approach that focuses on analysing individual companies or securities, rather than making investment decisions based on broader economic or market trends.

Commodities
A type of asset class which are typically raw materials or primary agricultural products that can be bought and sold, such as copper, gold, oil. As an asset class, commodities can provide diversification benefits to an investment portfolio because they often have low correlation with other asset classes.

Component Funds
Funds that are used as building blocks to create a diversified investment portfolio. These funds typically invest in a specific asset class or sector, such as large-cap stocks, small-cap stocks, or bonds. These funds are not available in the retail marketplace.

Consumer discretionary
A category of companies that provide goods and services that are considered non-essential or discretionary, meaning they are not necessary for basic living but are purchased by consumers when they have extra income. Examples include clothing and accessories, cars and entertainment. Companies in the consumer discretionary sector may be involved in the design, manufacture, marketing, and sale of these products and services.

Glossary continued

Consumer staples
A category of companies that provide goods and services that are considered essential or staples, meaning they are necessary for basic living and are purchased by consumers regardless of economic conditions. Examples include food, beverages, household products and healthcare products. Companies in the consumer staples sector may be involved in the production, processing, marketing, and distribution of these products and services.

Corporate bonds
A type of fixed income investment that companies issue to raise capital. When an investor buys a corporate bond, they are essentially lending money to the company that issued the bond. In return, the company promises to pay back the principal amount of the bond (the initial investment) plus interest over a set period of time.

Correlation
A statistic that measures the degree to which two investments (for example equities and bonds) move in relation to each other.

Coupon
Interest payment made to the bondholders by the issuer of a bond. It is usually paid out semi-annually or annually and is a percentage of the bond's face value. The coupon rate is the fixed interest rate that the bond issuer agrees to pay to the bondholders.

Currency exposure
A risk that an investment's value will be affected by changes in currency exchange rates.

Cyclical slowdown
A period of economic contraction that is part of the normal business cycle. In a typical business cycle, there are periods of expansion (when the economy is growing) and periods of contraction (when the economy is shrinking). A cyclical slowdown is a type of contraction that occurs when the economy slows down after a period of growth.

Credit
Debt investments that are issued by companies, governments, or other entities. Credit investments are essentially loans that investors make to the issuer, and in return, the issuer promises to pay back the principal amount of the loan plus interest over a set period of time.

Credit spreads
The difference in the income return on an investment between two types of debt investments, typically bonds. The spread is calculated by subtracting the income return of a lower-risk investment from the income return of a higher-risk investment.

Debt ceiling
The legal limit on the amount of money that a government is allowed to borrow to fund its operations.

Defensive stocks
Stocks of companies that tend to do well during tough economic times. These companies are often in industries that provide essential goods or services that people need no matter what's going on with the economy, like utilities, healthcare, and consumer staples. Defensive stocks are considered less risky than other stocks because they are less sensitive to changes in the economy.

Derivatives
Derivatives are financial instruments that get their value from other things, like equities, bonds, or commodities. They can be used for different purposes, like protecting against changes in the price of an asset, trying to make money by predicting the future price of an asset, or getting exposure to an asset without actually owning it.

Diversification
Spreading your money across different types of investments, such as equities, bonds, and property, instead of putting all your money in just one type of investment. By doing this, you can reduce the overall risk of your investment portfolio.

Downside
The potential loss that an investor may incur from an investment. It is the opposite of upside, which refers to the potential gain that an investor may achieve from an investment.

Dovish
A policy stance that is supportive of low interest rates and other measures designed to stimulate economic growth. For example, by lowering interest rates to make borrowing cheaper and encourage businesses and consumers to spend more. This can help to stimulate economic growth and reduce unemployment.

Glossary continued

Duration
The sensitivity of the price of a bond to changes in interest rates. A bond with a longer duration will typically be more sensitive to changes in interest rates than a bond with a shorter duration.

Economic Cycle
The natural pattern of growth and contraction that happens in the economy over time. It has four stages: expansion, peak, contraction, and trough. During the expansion phase, the economy is growing, and during the contraction phase, the economy is shrinking.

Emerging Markets
Countries that have fast-growing economies and may be going through the process of industrialisation. Examples include Brazil, Russia, India and China (often referred to as BRIC).

Equities
Also known as stocks or shares, equities represent an ownership interest in an entity, such as a company. In other words, if you own equity in a company, you own part of that business.

ESG
Stands for Environmental, Social and Governance. It's a way for investors to evaluate companies based on how they impact the environment, society, and their own internal policies. Investors use ESG criteria to make investment decisions that align with their values and beliefs.

Exchange Traded Funds (ETFs)
Funds that track indices, sectors or commodities and are bought and sold on the stock exchange.

Fixed Income
A type of investment that provides a fixed or predictable return in the form of regular interest payments. Fixed income investments are typically issued by governments, corporations, or other entities as a way to raise capital to fund their operations or growth. The most common type of fixed income investment are bonds.

Futures
Financial contracts that stipulate that an asset that must be bought or sold for a predetermined price on a future date.

Gilts
A type of fixed income investment issued by the UK government. They are considered to be among the safest investments available. They have a fixed interest rate and a specific maturity date, which can range from a few months to several decades.

Government Bonds
Essentially IOUs issued by a government to borrow money from investors. When you buy a government bond, you're basically lending money to the government for a set period of time, and in return, you'll receive interest payments. Government bonds are considered to be safe investments because the risk of the government defaulting on its debt is very low.

Growth investing
Investing in companies that are expected to offer future growth prospects that are above the average in their industry or sector.

Hawkish
A policy stance that is supportive of higher interest rates and other measures designed to control inflation. For example, a central bank may take a hawkish stance by raising interest rates in order to slow down economic growth and prevent inflation from rising too quickly.

Hedge fund
Funds that target high positive returns in any market environment through the use of nontraditional portfolio management techniques. They are typically only suitable for sophisticated investors as hedge funds can be more complex compared to traditional investments such as mutual funds.

High yield bonds
Issued by companies that have a lower credit rating than investment-grade bonds. These companies typically have a higher risk of defaulting on their debt obligations, which is why high income return bonds are considered to be a higher-risk investment. Because of the higher risk involved, they generally offer higher yields than investmentgrade bonds to compensate investors for the added risk.

Index
A standard that a fund's performance can be measured against. For example, a UK equity fund is managed against the FTSE100 index.

Glossary continued

Index-linked gilts
Bonds issued by the UK government that are designed to protect investors against inflation. Unlike conventional gilts, which pay a fixed rate of interest, the interest payments on index-linked gilts are adjusted for inflation.

Indices
A type of financial measure that tracks the performance of a group of investments, such as equities, bonds, or commodities. An index is designed to provide a snapshot of how the overall market or a specific segment of the market is performing. Also know as indexes.

Inflation
Inflation is when the prices of goods and services go up over time. This means that the same amount of money can buy fewer things than before. Inflation can be caused by various factors, such as an increase in the amount of money in circulation or changes in consumer demand. Inflation is measured using a price index, which tracks the prices of a basket of goods and services.

Insurance Linked Securities
These are financial instruments that allow insurance companies to transfer risk to investors. Investors in ILS earn a return for taking on this risk, which is paid out of the insurance premiums the insurance company collects. The return on these securities is dependent on the absence of a triggering event, such as a natural disaster. If such an event occurs, investors may lose part or all of their investment. ILS provide a means of diversification for investors, as their performance is not correlated with traditional financial markets.

Investment Association (IA)
A trade association for the UK's investment management industry. The IA maintains a set of benchmarks for different types of investment products. A benchmark is a standard against which the performance of an investment product can be measured.

Investment grade bonds
Investment grade bonds are a type of bond that is considered to be a safer investment because the issuer has a good credit rating so more likely to be able to pay back the money they have borrowed. They are usually issued by large, well-established companies or governments with a strong track record of financial stability.

Investment style
A set of investment strategies and techniques used by fund managers to manage portfolios. There are several different investment styles, each with its own approach to investing and set of characteristics. See Value and Growth investing.

Investment trusts
A type of collective investment fund that pools money from many investors to buy a portfolio of different assets, such as equities, bonds, and property. They are similar to mutual funds, but are structured as companies and are traded on stock exchanges like individual stocks.

Liquidity
The degree to which how quickly an asset can be bought or sold without impacting its price. For example, shares in very large corporations are highly liquid as they can be bought and sold almost as soon as you request. Property is illiquid since buying or selling property can take months if not years.

Market capitalisation
A measure of a company's size, calculated by multiplying the total number of shares a company has in issue by its current share price. Companies are commonly classified as either small cap, mid cap or large cap.

Market cycle
The term used for the cyclical and repeating pattern of markets which has four phases: slowdown, recession, recovery and expansion. See economic cycle.

Glossary continued

Multi-asset
A type of investment strategy that involves investing in a diversified portfolio of different asset classes, such as equities, bonds, property, and commodities. The goal of a multi-asset investment strategy is to achieve a balance between risk and return by spreading investments across different asset classes that behave differently in different market conditions.

Mutual funds
Mutual funds pool money from a large number of investors with similar goals into a single investment product. They are managed by a dedicated investment professional (commonly know as the portfolio or fund manager) and can invest in tens to thousands of securities from a specific asset class or a range of asset classes.

Net Asset Value (NAV)
A term used to describe the value of all the investments held by a fund, minus any fees, expenses, or other liabilities. It's usually calculated on a per-share basis, which means it represents the value of one share in the fund. The NAV is calculated at the end of each trading day.

Option
A financial contract that gives the holder the right, but not the obligation, to buy or sell an underlying asset at a specific price, on or before a specific date.

Ongoing Charge Figure (OCF)
The OCF is a measure of the total costs associated with managing and operating an investment portfolio. These costs include the management fees and additional expenses of the underlying funds but exclude any advice, platform charges, transaction fees or incidental costs.

Outperformance
Where an investment or investment portfolio has achieved a higher return than a benchmark or peer group over a specified period of time.

Overweight
When an asset or investment is overweight in a portfolio, it means that the allocation to that asset is higher than the benchmark or target allocation.

Passive fund/Passively managed
A fund that aims to track the performance of a market index.

Platform
A digital tool that allows investors to access a range of investment products and services from different providers in one place.

Policy tightening
Policy tightening is when a government or central bank take steps to slow down the economy and control inflation. This is done by increasing interest rates, which makes it more expensive to borrow money and can slow down spending and investment.

Portfolio
A collection of investments.

Private equity
Investments in companies that are not publicly traded and are not easily accessible to individual investors. Private equity firms raise money from investors, such as pension funds and wealthy individuals, and use that money to buy companies or to invest in companies to help them grow and become more profitable. Private equity firms typically hold their investments for several years before selling them for a profit.

Property
Property, as an asset class, refers to real estate investments that are intended to generate income and/or capital growth. Property investments can take many forms, including residential, commercial, industrial, and retail properties.

Proprietary
Something that is developed and owned by a particular company and is not available to competitors.

Quantitative easing (QE)
A monetary policy tool used by central banks to stimulate the economy. In QE, the central bank buys financial assets, such as government bonds, from banks and other financial institutions, thereby increasing the money supply in the economy. By increasing the money supply, the central bank aims to lower interest rates and encourage lending, which in turn can boost economic activity and inflation. QE is typically used when traditional monetary policy tools, such as adjusting interest rates, have become ineffective.

Glossary continued

Quality stocks
Stocks of companies that are considered to be financially stable, profitable, and well-managed.

Real assets
A type of investment that refers to physical assets such as property, commodities, natural resources, and infrastructure. Unlike financial assets such as equities and bonds, real assets have intrinsic value because they have a tangible presence in the real world.

Real estate
Investments in physical property, such as land, buildings, and other structures. This can take many forms, such as buying and renting residential or commercial properties, investing in real estate investment trusts (REITs), or investing in real estate development projects.

Real return
The money an investment makes taking into account inflation (expressed as a percentage). If an investment grows in value by 5% over one year, and the rate of inflation is 2%, the real return is 3%.

Rebalancing
Increasing and reducing exposure to asset classes within a portfolio to reflect any changes in the expected long-term returns from asset classes.

Recession
A period of economic decline characterised by a decrease in gross domestic product (GDP), employment, and trade lasting for at least two consecutive quarters.

Real Estate Investment Trusts (REITs)
A type of investment fund that owns and operates income-generating residential and commercial properties.

Sector analysis
The process of evaluating and comparing different sectors of the economy as potential investments. The most commons sectors are: Consumer Discretionary, Consumer Staples, Energy, Financials, Healthcare, Materials and Industrials.

Share class
Refers to a specific type of share that is issued. Each share class has unique characteristics, such as voting rights, fees, and dividend payments. Share classes give investors different options for investing in a company and this can impact fees and expenses as well as returns.

Slowdown
A period of reduced economic activity characterized by a decline in indicators such as gross domestic product (GDP), employment, and consumer spending.

Stagflation
A combination of stagnant economic growth, high unemployment, and high inflation. It is a situation where an economy experiences a slowdown or stagnation in economic output (GDP), along with rising prices and a decrease in purchasing power.

Stocks
Also known as equities or shares, represent ownership in a company. When an investor buys a share of stock, they are buying a small piece of ownership in that company.

Strategic asset allocation (SAA)
The target investment split between different asset classes in a portfolio. This is based on the long-term risk and return characteristics of asset classes and is designed to reflect an investor's investment objectives and attitude to risk. The target asset allocation may be adjusted periodically (rebalanced) to reflect changes in market conditions.

Thematics
An investment strategy that focuses on investing in companies that are expected to benefit from a particular trend or theme, such as technological innovation.

Top down
An investment approach that starts with an analysis of broader economic and market trends, and then uses this analysis to guide investment decisions.

Total return
The total return of an investment comprises any capital appreciation (or depreciation) plus any income from interest or dividends over a period of time.

Glossary continued

UK CPI
UK Consumer Price Index. It is a measure of inflation that tracks the changes in the price of a basket of goods and services purchased by households in the UK.

Underweight
When an asset or investment is underweight in a portfolio, it means that the allocation to that asset is lower than the benchmark or target allocation. Overweight: When an asset or investment is overweight in a portfolio, it means that the allocation to that asset is higher than the benchmark or target allocation.

Upside
The potential gain that an investor may achieve from an investment. It is the opposite of downside which refers to the potential loss that an investor may incur from an investment.

Value investing
Investing in companies that are seen to be undervalued relative to their current trading price. We believe they offer greater return potential in comparison to more expensive areas of the market.

Volatility
A measure of how much the Fund's returns may vary over a year.

Yield
The income return on an investment, usually expressed as a percentage of the amount invested.

Yield curve
The relationship between the yield (or interest rate) and the maturity of a series of fixed income investments.

Yield spreads
The difference in yield between two different types of fixed-income investments, such as bonds. Yield spreads are often used as a measure of the risk associated with a particular investment, with higher spreads indicating higher risk.

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