Schroders

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Schroder ISF* Global Sustainable Growth

Fund Managers: Scott MacLennan, Charles Somers | Fund update: October 2023

Performance overview

– Global equity markets were broadly lower in October as conflict in the Middle East weakened investor risk appetites

Drivers of fund performance

– Stock selection was positive in October, particularly in information technology, financials and industrials. Conversely, selection in healthcare, consumer staples and communication services detracted in the month

– By region, our positions in the UK and Continental Europe detracted, while Japan, Pacific ex Japan, North America and emerging markets added value in the month

– Online travel company **Booking** underperformed in October as investors banked profits following strong growth in the share price in recent months. The company has benefitted from a strong summer travel season with gross bookings up by more than 16% compared with the previous year. The company recently announced that it is launching an AI trip planner that leverages its own machine learning tools with Open AI's ChatGPT. We believe this should further bolster its position within the online travel market

– **Lonza Group, Thermo Fisher Scientific** and Schneider Electric were among the biggest individual detractors in October. Our positions in **AstraZeneca, Texas Instruments** and **Norsk Hydro** also detracted in the month

– Multi-national insurance and finance company **AIA Group** outperformed in October after the company reported a strong rise in the value of its new business in the first half of the year, with sales rebounding in its key markets of mainland China and Hong Kong following the lifting of Covid-19 restrictions at the end of 2022

– **Microsoft, Elevance Health** and **Adobe** were among the biggest individual contributors in October. Our holdings in **Hitachi, Keyence** and **Terumo** also added value in the month

Portfolio activity

– We trimmed our positions in **Nestle** and **RELX** in October

– We added to our positions in a number of stocks during October. These included **ARM Holdings, DBS Group Holdings, Kingfisher** and **Norsk Hydro**

Outlook/positioning

– Concerns remain over rising inflation, global supply chain problems, high energy prices and the changing regulatory environment in some countries

– The outlook remains mixed, with fiscal and monetary tightening likely to dampen the ongoing recovery. We remain tilted towards quality and are focusing on stock-picking. We remain conscious of inflation and interest rate risk in the portfolio and are managing our positions accordingly

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

Risk considerations

- **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
- **Emerging Markets and Frontier Risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets
- **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
- **Derivatives Risk – Efficient Portfolio Risk:** 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
- **Currency Risk:** The fund may lose value as a result of movements in foreign exchange rates
- **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 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
- **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
- **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