Schroder Investment Solutions

Quarterly Bulletin

Q1 2022

Schroders

Marketing material

Contents

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 your portfolio has 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 portfolio and the reasons why.

We hope that you find this information useful.

Alex Funk
Chief Investment Officer
Schroder Investment Solutions

Market performance

Q1 2022

2017	2018	2019	2020	2021	YTD	Q1 2022
Asia Ex Japan Equities 29.4	Global High Yield Bonds 13.1	US Equities 25.7	Asia Ex Japan Equities 21.2	Commodities 41.6	Commodities 36.9	Commodities 36.9
EM Equities 25.4	Global Property 1.2	Europe ex UK Equities 20.0	US Equities 16.2	Global Property 28.4	Global High Yield Bonds 4.4	Global High Yield Bonds 4.4
Europe ex UK Equities 15.8	Global Treasury Bonds 1.1	UK Equities 19.2	EM Equities 14.7	US Equities 27.6	UK Equities 0.5	UK Equities 0.5
Japanese Equities 15.6	UK Gilts 0.6	Global Property 18.3	UK Index-linked Gilts 11.0	UK Equities 18.3	Global Property -1.0	Global Property -1.0
UK Equities 13.1	US Equities 0.1	Japanese Equities 14.6	Japanese Equities 9.5	Europe ex UK Equities 16.7	US Equities -2.1	US Equities -2.1
US Equities 10.4	UK Index-linked Gilts -0.3	EM Equities 13.9	UK Corporate Bonds 9.1	Global High Yield Bonds 5.7	Japanese Equities -3.5	Japanese Equities -3.5
UK Corporate Bonds 4.9	UK Corporate Bonds -2.2	Asia Ex Japan Equities 13.6	UK Gilts 8.3	UK Index-linked Gilts 4.2	EM Equities -4.3	EM Equities -4.3
Global Corporate Bonds 4.6	Global Corporate Bonds -2.7	Commodities 13.1	Europe ex UK Equities 7.5	Japanese Equities 2.0	Global Treasury Bonds -4.5	Global Treasury Bonds -4.5
UK Index-linked Gilts 2.3	Japanese Equities -8.4	UK Corporate Bonds 11.0	Global Corporate Bonds 7.2	Global Corporate Bonds -1.0	Asia Ex Japan Equities -5.4	Asia Ex Japan Equities -5.4
UK Gilts 1.8	Commodities -8.5	Global Corporate Bonds 10.6	Global Treasury Bonds 4.6	EM Equities -1.6	UK Index-linked Gilts -5.5	UK Index-linked Gilts -5.5
Global Property 1.8	Asia Ex Japan Equities -9.0	UK Gilts 6.9	Global High Yield Bonds 3.7	Global Treasury Bonds -2.0	UK Corporate Bonds -6.7	UK Corporate Bonds -6.7
Global Treasury Bonds 1.1	EM Equities -9.3	UK Index-linked Gilts 6.4	UK Equities -9.8	UK Corporate Bonds -3.3	Global Corporate Bonds -6.8	Global Corporate Bonds -6.8
Commodities -3.4	UK Equities -9.5	Global Treasury Bonds 5.5	Global Property -11.0	Asia Ex Japan Equities -3.8	UK Gilts -7.2	UK Gilts -7.2
Global High Yield Bonds -3.6	Europe ex UK Equities -9.9	Global High Yield Bonds 2.4	Commodities -26.1	UK Gilts -5.2	Europe ex UK Equities -7.4	Europe ex UK Equities -7.4

Source: Morningstar as at March 2022.

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Market commentary

Q1 2022

Russia's invasion of Ukraine in late February caused a global shock. The grave human implications fed through into markets, with equities declining and bond yields rising (meaning prices fell).

US stocks declined in Q1. Russia's invasion of Ukraine drew widespread condemnation and elicited a range of strict sanctions from the US and its allies. Energy and utility companies were amongst the strongest performers in relative terms over the month, outperforming a falling market with modest gains. Technology, communication services and consumer discretionary were amongst the weakest sectors.

Eurozone shares fell sharply in the quarter. The region has close economic ties with Ukraine and Russia, particularly when it comes to reliance on Russian oil and gas. Over the quarter, energy was the only sector to register a positive return. The steepest declines came from the consumer discretionary and information technology sectors.

UK equities were resilient as investors began to price in the additional inflationary shock of Russia's invasion of Ukraine. Large cap equities tracked by the FTSE 100 index rose over the quarter, driven by the oil, mining, healthcare and banking sectors. Strength in the banks reflected rising interest rate expectations. The Bank of England moved to hike rates ahead of other developed market central banks.

After weakness in January and February, the Japanese stock market rose in March to end the first quarter just slightly below its end 2021 level. This was despite the change in outlook for US interest rates, the outbreak of war in Europe and sharply higher energy prices.

Asia ex. Japan equities experienced sharp declines in the first quarter of 2022 amid a volatile and challenging market environment as Russia launched an invasion of neighbouring Ukraine.

Emerging Markets

Emerging market (EM) equities were firmly down in Q1 as geopolitical tensions took centre stage following Russia's launch of a full-scale invasion of Ukraine. The US and its Western allies responded with a raft of sanctions. Commodity prices moved higher in response to the war, raising concerns over the impact on inflation, policy tightening and the outlook for growth.

Financial markets were volatile over the quarter. Headlines were dominated by the horrific war in Ukraine and the terrible humanitarian crisis continuing to unfold. There was a short-lived rotation toward safe haven assets as the war began, but investors appeared to focus overall on inflationary pressure that is high and still rising.

Market commentary

Q1 2022

The S&P GSCI Index achieved a strong return in the first quarter of 2022, driven by sharply higher prices for energy and wheat following Russia's invasion of Ukraine. Energy was the best performing component of the index, with strong price gains for gas oil, natural gas and heating oil amid rising global demand for energy and fears of supply curbs as a result of the Ukraine crisis.

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.**

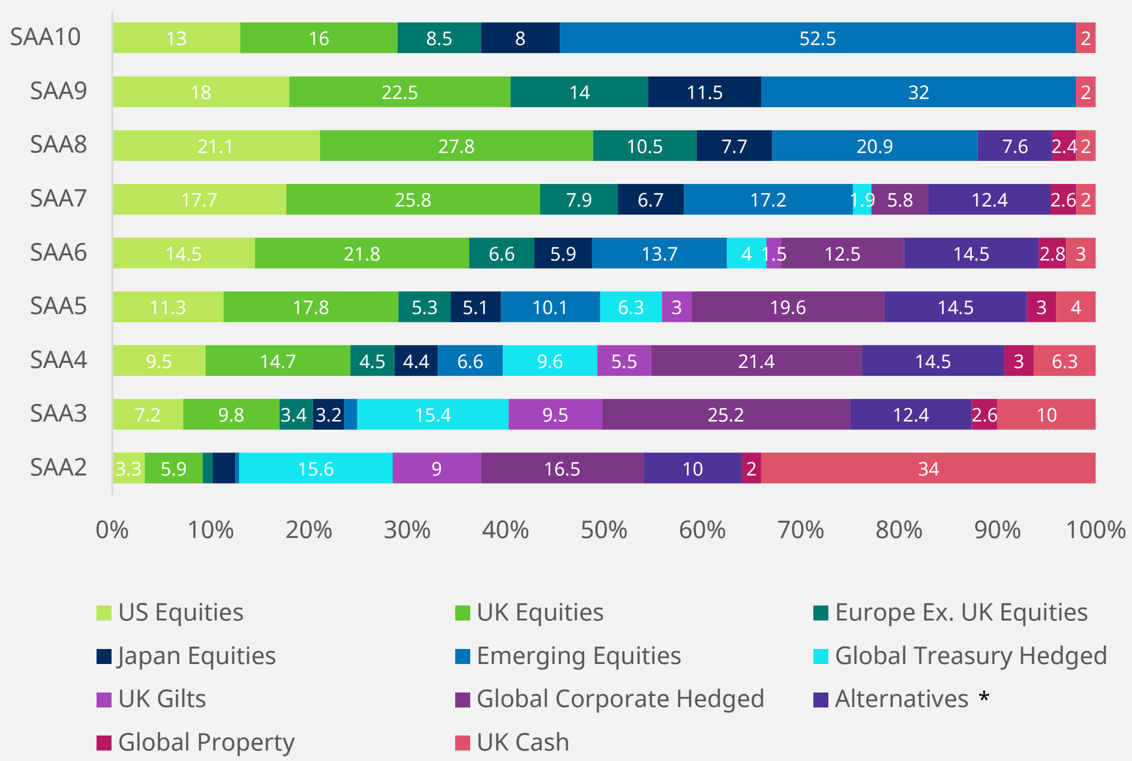
Asset allocation

Q1 2022

We have a robust asset allocation framework with the right 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 Active 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)

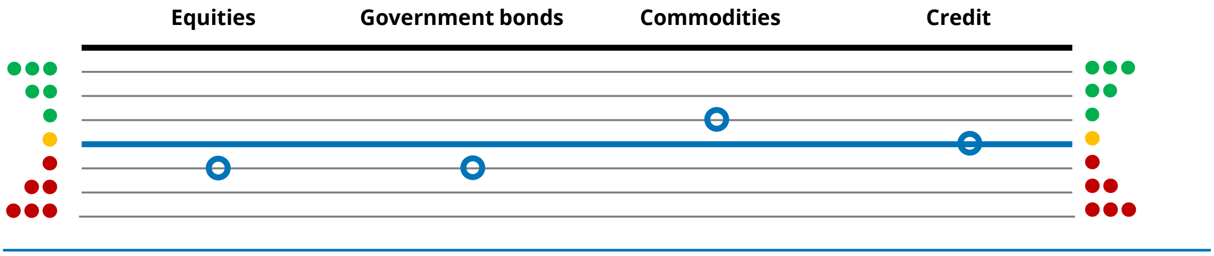


The chart illustrates the asset class diversification across the Schroder Active Model Portfolios 2-10. Please note that the illustration may not show our current asset allocation.

**Alternatives include non-traditional asset classes for example Commodities, Infrastructure, Real Assets and Emerging Market Debt*

Asset class views

Q1 2022



🟢🟢🟢 **Maximum positive** 🟡 **Neutral** 🔴🔴🔴 **Maximum negative**

MAIN ASSET CLASSES

Category	View	Comments
Equities	🔴	Russia's move into Ukraine added more uncertainty into the already volatile market. This is against the backdrop of many developed countries raising rates and tightening liquidity (when the availability of funds becomes less ample).
Government bonds	🔴	Given further supply disruptions caused by the geopolitical situation, we expect the trade-off between growth and inflation to continue to deteriorate, posing a challenge to central bank policy.
Commodities	🟢	We remain positive on commodities due to heightened geopolitical risks and the imbalance between supply and demand.
Credit	🟡	We upgraded to neutral reflecting the widening of spreads (the difference in corporate bond yields compared to a lower risk, similar maturity government bond). We expect slight declines in spreads in Europe and emerging market investment grade credit.

EQUITIES

Category	View	Comments
US	🟡	The markets seem poised for the start of the quantitative tightening cycle (when central banks reduce the amount of bonds they hold) with valuations re-rating significantly. The crisis in Europe adds some uncertainty but US inflation and the quantitative tightening cycle are still the main focus.
UK	🟡	The defensive and commodity tilts of the FTSE 100 mean that this market can likely better withstand geopolitical deterioration compared to others.
Europe	🔴	With inflation skyrocketing and sanctions on Russia seeping into the system, European equities have much more to lose in the near term.
Japan	🟡	A global recovery is crucial for this market but nevertheless it should be less affected by the situation in Europe.
Global Emerging Markets[1]	🟡	We downgraded to neutral despite cheap valuations. The market outlook has deteriorated with geopolitical risk in Eastern Europe, lockdowns in China, energy and food price inflation and recession risk all playing a role.
Asia ex-Japan China	🟡	The increasingly stagflationary environment (where growth stagnates, but inflation is rising or remains high) globally will reduce global growth, and hence Chinese exports. This will be exacerbated by the resurgent number of Covid-19 cases.
EM Asia ex China	🟡	The Korean elections are imminent and removal of this political uncertainty should be a tailwind for the region.

Source: Schroders, March 2022. Note: The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to the US dollar, apart from the US dollar which is relative to a trade-weighted basket.

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 Active Model Portfolios

Q1 2022

Schroder Active Model Portfolios performance

	Q1 2022	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Common Inception[1] (01/02/2008) - 31/03/2022
Schroder Active portfolio 2	**-2.05**	**-2.05**	**0.44**	**7.38**	**-2.17**	**1.84**	**0.80**	**2.95**
UK CPI	1.78	1.78	7.02	0.71	1.52	1.91	2.46	2.51
Schroder Active portfolio 3	**-3.07**	**-3.07**	**1.25**	**14.36**	**-3.17**	**3.73**	**1.63**	**5.28**
IA Mixed Investment 0-35% Shares	-3.08	-3.08	0.21	12.22	-3.54	2.43	0.44	3.71
Schroder Active portfolio 4	**-3.51**	**-3.51**	**1.86**	**20.14**	**-4.72**	**3.37**	**2.69**	**6.38**
Schroder Active portfolio 5	**-3.88**	**-3.88**	**2.23**	**25.26**	**-6.20**	**3.44**	**4.12**	**6.92**
IA Mixed Investment 20-60% Shares	-3.38	-3.38	1.78	20.05	-7.14	2.89	0.83	4.47
Schroder Active portfolio 6	**-4.26**	**-4.26**	**2.93**	**31.44**	**-6.83**	**2.57**	**7.06**	**7.99**
Schroder Active portfolio 7	**-4.67**	**-4.67**	**3.46**	**37.11**	**-6.46**	**2.70**	**7.86**	**8.84**
IA Mixed Investment 40-85% Shares	-3.69	-3.69	5.29	26.47	-7.73	4.36	1.63	5.93
Schroder Active portfolio 8	**-5.30**	**-5.30**	**3.84**	**41.93**	**-7.59**	**1.71**	**7.48**	**8.65**
Schroder Active portfolio 9	**-6.62**	**-6.62**	**1.66**	**46.49**	**-5.85**	**1.50**	**9.25**	**8.91**
Schroder Active portfolio 10	**-7.21**	**-7.21**	**-1.22**	**46.74**	**-10.35**	**0.90**	**8.28**	**7.39**
IA Flexible Investment	-3.64	-3.64	4.99	29.36	-8.05	3.34	2.34	5.88

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Positive contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Jupiter Gold & Silver	9.93%	This fund continued to act as a hedge against the rapidly evolving environment, following on from the positive Q4 2021 results from underlying companies. The Gold price rose solidly over the quarter, with Silver moving in step, thus supporting the underlying companies and fund. Despite the fund performing well, we are going to be selling it (at a healthy profit, thus serving its purpose in the portfolios for now) given the potential challenge faced from rising real yields. We will continue to monitor the fund post sale for potential future entry points.
Dodge & Cox Worldwide US Stock	3.75%	The Value orientated nature of this fund benefited over the quarter. Virtually all energy stocks held at the start of the quarter delivered above 40% returns on the back of rising energy prices, while the largest two positions held within the fund (accounting for c.8% of the fund value) also delivered positive returns. Despite the recent performance, valuations for the fund continue to remain attractive.
Neuberger Berman Uncorrelated Strategies	3.01%	The fund has continued to act as a risk diversifier for the portfolio, and we aim for it to provide benefits in volatile markets. This year the team has made good gains in trend following (following price movements), short-term trading (holding investments for very short-term time horizons) and global macro (trading on global macro signals and changes), while volatility relative Value has been a smaller contributor. Statistical arbitrage (buying and selling holdings which temporarily move out of relationship with each other, but are likely to revert) has been the main detractor whilst the equity market neutral (eliminating sensitivity to the gyrations of the stock market to focus on outperformance) allocation has also detracted. Positioning related to short rates/bonds has also been a key driver of returns, particularly from short-term trading and trend following.

Negative contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Jupiter UK Mid-Cap	-20.89%	The fund is run by Richard Watts, who has established a reputation as one of the strongest stock pickers in the UK market and, as a result, runs a high conviction fund. This year there have been several stocks which have had problems, which Richard argues are only short term or temporary in nature. THG (an e-commerce business with poor short-term trading updates), continues to experience a negative re-rating. Additionally, S4 Capital, Dr Martens, and Auction Technology Group, all faced large short-term drawdowns (peak to trough decline in value). It is worth noting that the manager's dominant theme, UK Mid-Cap growth, has struggled with the style-relevant index – down -14.09% over the quarter. Richard has bounced back from difficult performance periods before (such as 2009 and 2018) and has also sold badly hit names when he believes recovery will not occur. We've witnessed the manager navigate this fund successfully through many investment cycles and whilst monitoring the situation closely, continue to hold the fund in our portfolios.
JPM Japan	-17.12%	Japan's stock market continued to face challenges accompanied by a weaker currency. JPM Japan's segment of the market – Large-Cap growth stocks – was harder hit in the Value-Growth dynamic over the quarter. While MonotaRO and Nintendo (both larger positions in the fund) delivered handsome returns, this was insufficient to offset the losses. Six different stocks, equating to approximately 5% of the fund, all experienced losses larger than 40%, thus offsetting the gains made. We will be monitoring the position closely over the next quarter.
Jupiter Strategic Bond	-5.37%	On the back of rising interest rates and widening credit spreads (premium companies pay over and above a government reference rate), this fund – alongside certain Fixed Income segments – experienced lower returns. Looking forward, the manager remains broadly equally split across EU, US, UK, and Asia Pacific ex Japan markets, and is thus diversified against any single specific monetary or fiscal regime. With an average interest of c.4.7%, the fund's income is well placed to offset any changes in capital values.

Schroder Active Model Portfolios

Q1 2022

Portfolio updates

The first quarter of 2022 was volatile and virtually all asset classes experienced challenges which effected performance. In Sterling terms, only FTSE All-Share (+0.49%) generated positive returns. Losses were primarily driven by European equity drawdowns (peak to trough decline). On a granular level, Value orientated investment funds outperformed higher valued Growth funds. With this backdrop, the portfolios held up relatively well and despite the obvious challenges to returns, we believe the portfolios have provided a good degree of protection against the elevated level of risks experienced.

Looking forward, the investment committee has implemented the annual strategic asset allocation (SAA) rebalance. The revised SAA now includes a new global equity allocation; this allows the portfolios to capture opportunities not available within specific individual geographies (such as thematic investment strategies). We will also be removing UK Gilts as a stand-alone allocation; this asset will now be solely included within the global government bond exposure, but at a level that better reflects global weights.

These changes - combined with the marginal normal asset class adjustments based on long-term views – are expected to deliver better risk-adjusted outcomes for the portfolios through reduced volatility.

On a regional basis there will be a minor reduction in UK equities to decrease the long-standing home bias; this will then partly fund the global allocation. This will also be funded via reductions in Europe and Japan exposure, albeit that these allocations will largely return to the same levels on a total basis. In order to minimise cash, minor reductions of cash into global treasuries will occur at the relevant risk levels. The overall result will primarily be lower risk levels while return expectations for the long run largely remain unchanged.

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Schroder Active Model Portfolios

Q1 2022

Portfolio changes

From an equity style perspective, we continue to retain our neutral exposure to Value and Growth stocks and will be rebalancing to targets on the back of a volatile quarter. We have re-assessed our exposure to Value and Growth, and have concluded to make no changes. We will continue to assess whether the market moves have generated permanent changes to the fundamentals, and thus future expected returns. We will provide more information on this front during next quarter's update, which may shift the exposure.

From an Alternatives perspective, we retain our cautious stance and thus lower correlation to equity markets. We are selling our Gold & Silver position (at a profit since inception) given concerns around future expected interest rate increases and the marginal contribution to the risk of the fund. Inflation protection is still front of mind and will be provided through real assets, inflation linked bonds and property. We will focus our future efforts on searching for funds within this space that are less reliant on equity markets to provide outperformance.

Fixed Income is a hotly debated asset class currently given both the increased levels of inflation being experienced, as well as the change in central bank monetary policy towards rate rises. We currently remain underweight duration (sensitivity to interest rate changes) and are thus cautiously positioning for future interest rate rises. We are starting to discuss whether fixed income rates are becoming attractive again given the large number of interest rate increases are expected. If GDP growth slows this may reduce the number of rate hikes that actually happen. Economic indicators (inversion of the US 10-year minus 2-year rates - a general predictor of an economic slowdown) also creates a new dynamic that needs to be factored in.

From an asset allocation perspective, we have re-classified our Emerging Market Debt (EMD) exposure alongside our strategic bond managers. While previously being classified as an Alternative asset, this amendment will allow us to manage the risk-drivers – such as duration or credit quality – on a more direct basis. Our Fixed Income positioning will continue to be split into Global Government and Global Corporates, with the intention being that Government bonds will act as a diversifier with the inclusion of EMD.

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Schroder Income Model Portfolio
Q1 2022

Schroder Income Model Portfolios performance

	Q1 2022	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Inception[1] (01/04/2018) - 31/03/2022
Schroder Income Portfolio	**-2.32**	**-2.32**	**4.91**	**19.50**	**-15.34**	**2.38**	**—**	**2.10**
IA Mixed Investment 20-60% Shares	-3.38	-3.38	1.78	20.05	-7.14	2.89	0.83	3.95

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Schroder Income Model Portfolio
Q1 2022

Positive contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Schroder Income Maximiser	4.22%	The fund's value orientation, even relative to the FTSE All-Share Index, was favoured by the market over the quarter. Additionally, the manager only held a minority of the fund in mid-caps, thus avoiding the recent losses experienced in smaller stocks. Strong returns delivered by Basic Material stocks (such as South32, Anglo American, Rio Tinto, and BHP Group), bolstered performance despite large detractions in the smaller weighted Consumer Cyclical and Industrial sectors. The option writing overlay (selling derivatives that provide protection against the stock market falling, but that generate an income for doing so) has also provided an approximate 2% additional income yield over and above the yield of the market, thus stabilising returns and income for the fund.
iShares MSCI USA Quality Dividend ETF	1.13%	The fund's emphasis on quality has steered the portfolio to Healthcare (c.22%) and Consumer Defensive (c.16%) sectors. Both sectors are overweighted to the stock market and both provided positive returns for the quarter. The largest detraction for the quarter was Consumer Cyclical stocks (c.7%); these marginal losses were more than offset by other gains. With the S&P 500 yielding approximately 1.35%, the fund's c.2.11% yield still offers relative value.
City of London	2.16%	The fund's value orientation, even relative to the FTSE All-Share Index, was favoured by the market over the quarter. Additionally, the manager only held a minority of the portfolio in mid-caps, thus avoiding the recent losses experienced in smaller stocks. Through good stock selection, the manager was able to add value in virtually all sectors. The largest drawdown (peak to trough decline in value) was in the Consumer Cyclical sector (primarily driven by losses in Halfords, Kingfisher, and Taylor Wimpey).

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Schroder Income Model Portfolio

Q1 2022

Negative contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Jupiter Strategic Bond	-5.38%	On the back of rising interest rates and widening credit spreads (premium companies pay over and above a government reference rate), this fund – alongside certain Fixed Income segments – experienced lower returns. Looking forward, the manager remains broadly equally split across EU, US, UK, and Asia Pacific ex Japan markets, and is thus diversified against any single specific monetary or fiscal regime. With an average interest of c.4.7%, the fund's income is well placed to offset any changes in capital values.
TwentyFour AM Dynamic Bond	-4.59%	The intra-quarter period was a difficult time for markets given the shift from central banks to higher interest rates, in additional to the invasion of Ukraine by Russia. Given this backdrop, risk assets performed poorly, with European high yield bonds facing challenges (providing lower returns). The managers continue to retain the low sensitivity to interest and corporate bond spread moves in general.
JPM Emerging Markets Income	-3.21%	Over the quarter, the fund had a c.3% exposure to Russian stocks (vs 2.50% in the benchmark). On the back of the conflict in Ukraine and subsequent sanctions, stocks here lost -73% on average (vs c.-49% for the benchmark). Additionally TSMC and Samsung Electronics (c.16% of the fund) both experienced challenges over the quarter. The fund continues to deliver a yield premium relative to the general market (c.2.8% vs c.2.5%).

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Schroder Income Model Portfolio

Q1 2022

Portfolio updates

The first quarter of 2022 was unsurprisingly volatile and virtually all asset classes experienced challenges which effected performance. In Sterling terms, only the FTSE All-Share (+0.49%) generated positive returns. Losses were primarily driven by European equity drawdowns (peak to trough decline). At a granular level, Value orientated investment funds outperformed higher valued Growth funds. With this backdrop, the portfolios held up relatively well.

The Income portfolio benefitted from this tailwind given that higher yielding income paying companies tend to be cheaper compared to the faster growing companies that generally have low yields.

Despite the increased volatility and challenges to returns, we feel the portfolio has provided a good degree of protection against the elevated level of risks experienced.

Looking forward, the investment committee has implemented the annual strategic asset allocation (SAA) rebalance. The revised SAA now includes a new global equity allocation; this allows the solutions to capture opportunities not available within specific individual geographies (such as thematic investment strategies). We will also be removing UK Gilts as a stand-alone allocation; this asset will now be solely included within the global government bond exposure, but at a level that better reflects global weights.

These changes - combined with the marginal normal asset class adjustments based on long-term views – are expected to deliver better risk-adjusted outcomes for the solutions through reduced volatility.

On a regional basis there will be a minor reduction in UK equities to decrease the long-standing home bias; this will then partly fund the global allocation. This will also be funded via reductions in Europe and Japan exposure, albeit that these allocations will largely return to the same levels on a total basis. In order to minimise cash, minor reductions of cash into global treasuries will occur. The overall result will primarily be lower risk while return expectations for the long run largely remain unchanged.

Schroder Income Model Portfolio

Q1 2022

Portfolio changes

From an equity style perspective, we continue to limit our exposure to outright expensive Growth stocks in the portfolios and will be rebalancing as far back as possible to targets on the back of a volatile quarter. We are assessing whether the market moves have generated permanent changes to the fundamentals, and thus future expected returns. We will provide more information on this front during next quarters update.

From an Alternatives allocation perspective, we retain our cautious stance and thus lower correlation to equity markets. We are selling our Gold & Silver position (at a profit since inception) given concerns around future expected interest rate increases and the marginal contribution to the risk of the fund. Inflation protection is still front of mind and will be provided through real assets, inflation linked bonds and property. We will focus our future efforts on searching for funds within this space that are less reliant on equity markets to provide outperformance.

Fixed Income is a hotly debated asset class currently given both the increased levels of inflation being experienced, as well as the change in central bank monetary policy towards rate rises. We currently remain underweight duration (sensitivity to interest rate changes) and are thus cautiously positioning for future interest rate rises. We are starting to discuss whether fixed income rates are becoming attractive again given the large number of interest rate increases are expected. If GDP growth slows this may reduce the number of rate hikes that actually happen. Economic indicators (inversion of the US 10-year minus 2-year rates - a general predictor of an economic slowdown) also creates a new dynamic that needs to be factored in.

From an asset allocation perspective, we have re-classified our Emerging Market Debt (EMD) exposure alongside our strategic bond managers. While previously being classified as an Alternative asset, this amendment will allow us to manage the risk-drivers – such as duration or credit quality – on a more direct basis. Our Fixed Income positioning will continue to be split into Global Government and Global Corporates, with the intention being that Government bonds will act as a diversifier with the inclusion of EMD.

The yield of the portfolio has been improving and we expect for this to continue. This is supported by rising yields from both fixed income and equity, as well as asset allocation updates and rebalances.

Schroder Strategic Index Model Portfolios

Q1 2022

Schroder Strategic Index Model Portfolios performance

	Q1 2022	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Common Inception[1] (01/02/2011) - 31/03/2022
Schroder Strategic Index portfolio 2	**-3.50**	**-3.50**	**-0.59**	**5.40**	**0.71**	**3.00**	**-0.23**	**3.68**
UK CPI	1.78	1.78	7.02	0.71	1.52	1.91	2.46	2.25
Schroder Strategic Index portfolio 3	**-4.48**	**-4.48**	**0.32**	**11.09**	**-0.64**	**4.07**	**0.30**	**5.82**
IA Mixed Investment 0-35% shares	-3.08	-3.08	0.21	12.22	-3.54	2.43	0.44	3.76
Schroder Strategic Index portfolio 4	**-4.01**	**-4.01**	**1.92**	**15.69**	**-2.50**	**4.51**	**0.90**	**6.73**
Schroder Strategic Index portfolio 5	**-3.72**	**-3.72**	**2.97**	**19.51**	**-3.76**	**6.05**	**0.60**	**7.16**
IA Mixed Investment 20-60% shares	-3.38	-3.38	1.78	20.05	-7.14	2.89	0.83	4.74
Schroder Strategic Index portfolio 6	**-3.24**	**-3.24**	**4.53**	**23.76**	**-5.36**	**5.70**	**1.19**	**7.40**
Schroder Strategic Index portfolio 7	**-2.77**	**-2.77**	**6.11**	**28.97**	**-7.46**	**5.09**	**1.53**	**7.82**
IA Mixed Investment 40-85% shares	-3.69	-3.69	5.29	26.47	-7.73	4.36	1.63	6.39
Schroder Strategic Index portfolio 8	**-2.38**	**-2.38**	**7.53**	**32.65**	**-9.55**	**4.75**	**2.44**	**7.24**
Schroder Strategic Index portfolio 9	**-2.61**	**-2.61**	**5.55**	**35.33**	**-10.35**	**3.07**	**4.09**	**6.58**
Schroder Strategic Index portfolio 10	**-2.57**	**-2.57**	**2.73**	**36.61**	**-10.86**	**2.11**	**4.97**	**5.83**
IA Flexible Investment	-3.64	-3.64	4.99	29.36	-8.05	3.34	2.34	6.27

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Schroder Strategic Index Model Portfolios

Q1 2022

Positive contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
HSBC FTSE All Share Index	1.25%	The UK market overall provided one of the only positive returns for the quarter, in Sterling terms. The performance outcome was varied by market capitalisation, with both mid and small-caps facing challenges (see negative contributors). Energy and Basic Materials (Value and cyclical orientated sectors) delivered strong returns, alongside Healthcare stocks. Given the large index incumbent weights (the top 10 stocks account for c.48% of the index weight), this benefitted strong passive index performance.
Royal London Short Term Money Market	0.04%	With the challenges faced by the market, cash provided protection to the negative returns generally experienced across the board. The relative returns provided will be used in the rebalance back to targets weights within the (relevant) strategic asset allocations.
iShares Global Property Securities Equity Index	-0.20%	While performance of property was marginally negative, the asset provided large protection benefits relative to other asset classes. While holdings in the US and UK provided negative returns (c.64% of the index), strong returns from Netherlands, Italy and Ireland offset these challenges. The strong rally in property over the past two years has pushed valuations up towards cyclically higher levels compared to the past 20 years.

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Negative contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
HSBC FTSE 250 Index	-9.12%	This asset class faced strong challenges over the quarter, with only Energy and Utilities providing positive returns (1.65% and 2.76% in the benchmark respectively). Communication Services and Consumer Cyclical businesses lost the most (-21.28% and -20.44% respectively). Stocks such as Dr Martens (-44.01%), Baltic Classified Group (-45.26%), and Moonpig Group (-40.27%) saw their valuations fall sharply over the quarter.
Vanguard UK Government Bond Index	-8.17%	The market's reflection on UK Government credit quality, as well as the rise in interest rates and market expectations, were big challenges for the asset class. This index is very sensitive to changes in general market rates (a roughly 13.4% change in capital values for a 1% change in rates). Additionally, the market demanded a greater risk premium for holding UK Government Gilts over the quarter.
HSBC European Index	-6.59%	There was a broad-based sell-off over the quarter reflecting concerns about the impact of the conflict in Ukraine on the energy supply chain and other areas. Energy was the only positive contributor (+12.40% with a 3.11% index weight). The largest detractors were Consumer Cyclicals (15.52%), Technology (-14.85%), and Industrials (-10.42%). Valuations remain attractive relative to North America.

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Schroder Strategic Index Model Portfolios

Q1 2022

Portfolio updates

The first quarter of 2022 was unsurprisingly volatile and virtually all asset classes experienced challenges which effected performance. In Sterling terms, only the FTSE All-Share (+0.49%) generated positive returns. Losses were primarily driven by European equity drawdowns (peak to trough decline). At a granular level, Value orientated investment funds outperformed higher valued Growth funds. With this backdrop, the portfolios held up relatively well and despite the obvious challenges to returns, we believe the portfolios have provided a good degree of protection against the elevated level of risks experienced.

Looking forward, the investment committee has implemented the annual strategic asset allocation (SAA) rebalance. The revised SAA now includes a new global equity allocation. We will also be removing UK Gilts as a stand-alone allocation; this asset will now be solely included within the global government bond exposure, but at a level that better reflects global weights.

These changes - combined with the marginal normal asset class adjustments based on long-term views – are expected to deliver better risk-adjusted outcomes for the portfolios through reduced volatility.

On a regional basis there will be a minor reduction in UK equities to decrease the long-standing home bias; this will then partly fund the global allocation. This will also be funded via reductions in Europe and Japan exposure, albeit that these allocations will largely return to the same levels on a total basis. In order to minimise cash, minor reductions of cash into global treasuries will occur at the relevant risk levels. The overall result will primarily be lower risk levels while return expectations for the long run largely remain unchanged.

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Schroder Strategic Index Model Portfolios

Q1 2022

Portfolio changes

During the quarter we took action to implement changes which better reflected a more diverse and stable asset class index composition mix.

To this end, the portfolios will switch the underlying emerging markets equity index provider from FTSE to MSCI in order to ensure that all countries are included in the emerging market opportunity set. This creates a broader diversification in country names.

We will also be changing from TOPIX to MSCI Japan to be able to provide better access to underlying investment data, reduce the cost of investing in the index, all while maintaining broad Japan stock market exposure.

Within the Global Government Bond asset class, we will be switching from Bloomberg Global Treasury Index to the FTSE WGBI index. This index was selected as it provides a measured 36-month plan for China government bonds to be included. There is also more investment products that track this index and thus it allowed us to compete aggressively on price.

As a final action, the investment committee has included global equity within the strategic asset allocation. While on an index basis this may not materially change the underlying regional exposure, it allows the portfolios to benefit from enhanced diversification and thus better risk-adjusted returns for the portfolios.

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Schroder Sustainable Model Portfolios

Q1 2022

Schroder Sustainable Model Portfolios performance

	Q1 2022	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Common Inception[1] (01/11/2020) - 31/03/2022
Schroder Sustainable portfolio 3	**-3.84**	**-3.84**	**0.76**	**13.29**	**0.46**	**3.77**	**1.82**	**2.86**
IA Mixed Investment 0-35% shares	-3.08	-3.08	0.21	12.22	-3.54	2.43	0.44	2.98
Schroder Sustainable portfolio 4	**-4.53**	**-4.53**	**1.49**	—	—	—	—	**5.15**
Schroder Sustainable portfolio 5	**-5.02**	**-5.02**	**1.90**	**22.46**	**-0.47**	**5.56**	**3.97**	**6.80**
IA Mixed Investment 20-60% shares	-3.38	-3.38	1.78	20.05	-7.14	2.89	0.83	7.52
Schroder Sustainable portfolio 6	**-5.59**	**-5.59**	**2.49**	—	—	—	—	**8.26**
Schroder Sustainable portfolio 7	**-6.16**	**-6.16**	**3.08**	**32.02**	**-1.91**	**7.12**	**4.68**	**10.17**
IA Mixed Investment 40-85% shares	-3.69	-3.69	5.29	26.47	-7.73	4.36	1.63	12.12
Schroder Sustainable portfolio 8	**-6.80**	**-6.80**	**3.30**	—	—	—	—	**11.34**
IA Flexible Investment	-3.64	-3.64	4.99	29.36	-8.05	3.34	2.34	12.59

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Schroder Sustainable Model Portfolios
Q1 2022

Positive contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Gravis Clean Energy Income	5.83%	Despite the manager's overweight allocations to mid and smaller companies (compared against the general market), the sector and stocks continued to do well. The fund benefitted from the strong tailwinds experienced by the global clean energy sector. While the fund is at a substantial valuation discount to the S&P Global Clean Energy Index, valuations levels remain at an elevated point. Outside of Sweden and Norway, countries primarily tended towards positive returns, with Germany leading the pack. USA listed Brookfield Renewable Corp (one of the world's largest publicly traded, pure-play renewable power platforms), delivered strong returns over the quarter.
Nikko AM Japan Value	0.16%	The Value orientation of the fund assisted performance over the quarter, outperforming the TOPIX by 4.05% (-3.88%). This relatively good performance against more expensive Growth stocks was the result of them facing large drawdowns given rising interest rates. Additionally, good stock selection across the board provided additional returns within sectors.
Trojan Ethical Fund	0.03%	The fund's return was muted over the quarter, which led to volatility protection. Gold related investments (+9.1% in Sterling terms) as well as non-Sterling currency exposure, contributed to positive returns. The fund entered the quarter more conservatively given company valuations starting at elevated levels (equity exposure at 36%). Longer term, the team believes that there will be a cap on how far real-interest rates (rates above CPI) can rise in general, thus continuing to support their portfolio shape.

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Schroder Sustainable Model Portfolios
Q1 2022

Negative contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
EdenTree UK Equity	-12.39%	Over the quarter, mid to small cap stocks were unfavoured by the market so the fund struggled, with stock selection further detracting from returns. The two largest holdings at the start of the quarter, accounting for approximately 9% of the portfolio both saw losses (Dechra Pharmaceuticals -23.61%, Halma -3.98%). Halma had direct exposure to Russia and Ukraine but has since discontinued sales to the former.
Liontrust Sustainable Future Europe Growth	-13.92%	Europe in general suffered as a result of the outbreak of war on its eastern border. Additionally, the strategy's exposure to faster growing more expensive stocks was out of favour with the market on the back of rising interest rates, reflected in large price re-ratings in stocks such as Unifiedpost Group (-56.87%), Trustpilot (-55.44%), and Netcompany (-36.20%).
Royal London Sustainable Leaders	-5.91%	The fund's exposure to faster growing, more expensive stocks was out of favour with the market on the back of rising interest rates. Despite the largest holdings at quarter start (Experian and Ferguson) in Industrials experiencing losses (-18.44% and -20.31% respectively), the manager's stock selection performance was roughly inline with the sectors. The manager's preference for higher quality businesses will lead to periods of relative performance that is style dependant as compared to the more cyclically orientated UK market.

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Schroder Sustainable Model Portfolios

Q1 2022

Portfolio updates

The first quarter of 2022 was unsurprisingly volatile and virtually all asset classes experienced challenges which effected performance. In Sterling terms, only the FTSE All-Share (+0.49%) generated positive returns. Losses were primarily driven by European equity drawdowns (peak to trough decline). At a granular level, Value orientated investment funds outperformed higher valued Growth funds. With this backdrop, the portfolios held up relatively well.

The Sustainable portfolios struggled over the quarter given their holdings were biased to higher quality, faster growing companies. Despite this, we are still comfortable with the performance of the portfolios given that the equity allocations of each region, except UK, outperformed their respective style-appropriate benchmarks.

Given the increased volatility and challenges, we feel the portfolios have provided a good degree of protection against the elevated level of risks experienced.

Looking forward, the investment committee has implemented the annual strategic asset allocation (SAA) rebalance. The revised SAA now includes a new global equity allocation; this allows the portfolios to capture opportunities not available within specific individual geographies (such as thematic investment strategies). We will also be removing UK Gilts as a stand-alone allocation; this asset will now be solely included within the global government bond exposure, but at a level that better reflects global weights.

These changes - combined with the marginal normal asset class adjustments based on long-term views – are expected to deliver better risk-adjusted outcomes for the solutions through reduced volatility.

On a regional basis there will be a minor reduction in UK equities to decrease the long-standing home bias; this will then partly fund the global allocation. This will also be funded via reductions in Europe and Japan exposure, albeit that these allocations will largely return to the same levels on a total basis. In order to minimise cash, minor reductions of cash into global treasuries will occur at the relevant risk levels. The overall result will primarily be lower risk levels while return expectations for the long run largely remain unchanged.

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Schroder Sustainable Model Portfolios

Q1 2022

Portfolio changes

From an equity style perspective, we continue to retain our neutral exposure to Value and Growth stocks and will be rebalancing to targets on the back of a volatile quarter. We have re-assessed our exposure to Value and Growth, and have concluded to make no changes. We will continue to assess whether the market moves have generated permanent changes to the fundamentals, and thus future expected returns. We will provide more information on this front during next quarter's update, which may shift the exposure.

From an Alternatives perspective, we retain our cautious stance and thus lower correlation to equity markets. We are selling our Gold & Silver position (at a profit since inception) given concerns around future expected interest rate increases and the marginal contribution to the risk of the fund. Inflation protection is still front of mind and will be provided through real assets, inflation linked bonds and property. We will focus our future efforts on searching for funds within this space that are less reliant on equity markets to provide outperformance.

Fixed Income is a hotly debated asset class currently given both the increased levels of inflation being experienced, as well as the change in central bank monetary policy towards rate rises. We currently remain underweight duration (sensitivity to interest rate changes) and are thus cautiously positioning for future interest rate rises. We are starting to discuss whether fixed income rates are becoming attractive again given the large number of interest rate increases are expected. If GDP growth slows this may reduce the number of rate hikes that actually happen. Economic indicators (inversion of the US 10-year minus 2-year rates - a general predictor of an economic slowdown) also creates a new dynamic that needs to be factored in.

From an asset allocation perspective, we have re-classified our Emerging Market Debt (EMD) exposure alongside our strategic bond managers. While previously being classified as an Alternative asset, this amendment will allow us to manage the risk-drivers – such as duration or credit quality – on a more direct basis. Our Fixed Income positioning will continue to be split into Global Government and Global Corporates, with the intention being that Government bonds will act as a diversifier with the inclusion of EMD.

Schroder Blended Portfolios

Q1 2022

Investment objective

The Fund aims to provide capital growth and income by investing in a diversified range of assets and markets worldwide with a target average annual volatility (a measure of how much the Fund's returns may vary over a year) over a rolling five year period of between *[see table below for volatility target range by Portfolio]* of that of global stock markets (represented by the MSCI All Country World index).

	Volatility target[1] (% p.a. over a five year rolling period)	Comparator benchmark[2] IA Mixed Investment sector
Schroder Blended Portfolio 3	30% to 45% of MSCI ACWI	0-35% shares average
Schroder Blended Portfolio 4	40% to 55% of MSCI ACWI	20-60% shares average
Schroder Blended Portfolio 5	50% to 65% of MSCI ACWI	20-60% shares average
Schroder Blended Portfolio 6	65% to 80% of MSCI ACWI	40-85% shares average
Schroder Blended Portfolio 7	75% to 90% of MSCI ACWI	40-85% shares average
Schroder Blended Portfolio 8	85% to 100% of MSCI ACWI	Flexible Investment average

Source: Schroders 2022. [1]The Fund seeks to achieve the target volatility range by varying the weighting of asset types. During the relevant rolling five year period the Fund's volatility may be higher or lower than the target range if the investment manager believes it is necessary to seek to mitigate potential losses. The Fund's potential gains and losses are likely to be constrained by the aim to achieve its target volatility range. [2]The comparator benchmarks have been selected because the Investment Manager believes that this benchmark is a suitable comparison for performance purposes. Global equities are expressed as MSCI All Countries World Index.

Schroder Blended Portfolios

Q1 2022

Schroder Blended Portfolios performance

	Q1 2022	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Common Inception[1] (01/04/2020) - 31/03/2022
Schroder Blended portfolio 3 F Acc	**-2.60**	**-2.60**	**1.75**	**13.78**	—	—	—	**15.78**
IA Mixed Investment 0-35% shares	-3.08	-3.08	0.21	12.22	-3.54	2.43	0.44	12.46
Schroder Blended portfolio 4 F Acc	**-2.35**	**-2.35**	**3.11**	**19.84**	—	—	—	**23.57**
Schroder Blended portfolio 5 F Acc	**-2.37**	**-2.37**	**3.89**	**23.69**	—	—	—	**28.49**
IA Mixed Investment 20-60% shares	-3.38	-3.38	1.78	20.05	-7.14	2.89	0.83	22.19
Schroder Blended portfolio 6 F Acc	**-2.34**	**-2.34**	**5.21**	**28.78**	—	—	—	**35.48**
Schroder Blended portfolio 7 F Acc	**-2.37**	**-2.37**	**7.22**	**35.81**	—	—	—	**45.62**
IA Mixed Investment 40-85% shares	-3.69	-3.69	5.29	26.47	-7.73	4.36	1.63	33.16
Schroder Blended portfolio 8 F Acc	**-2.71**	**-2.71**	**6.86**	**39.64**	—	—	—	**49.22**
IA Flexible Investment	-3.64	-3.64	4.99	29.36	-8.05	3.34	2.34	35.81

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Schroder Blended Portfolios
Q1 2022

Positive contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Vanguard FTSE 100 Index	2.90%	The UK market overall provided one of the only positive returns for the quarter, in Sterling terms. The performance outcome was varied by market capitalisation, with both mid and small-caps facing challenges (see negative contributors), thus leaving the FTSE 100 as the provider of the returns. Energy and Basic Materials (Value and cyclical orientated sectors) delivered strong returns, alongside Healthcare stocks. Given the large index incumbent weights (top 10 stocks account for c.48% of the index weight), this benefitted strong passive index performance.
Jupiter Gold & Silver	9.95%	This fund continued to act as a hedge against the rapidly evolving environment, following on from the positive Q4 2021 results from underlying companies. The Gold price rose solidly over the quarter, with Silver moving in step, thus supporting the underlying companies and fund. Despite the fund performing well, we are going to be selling it (at a healthy profit, thus serving its purpose in the portfolios for now) given the potential challenge faced from rising real yields. We will continue to monitor the fund post sale for potential future entry points.
Neuberger Berman Uncorrelated Strategies	3.01%	The fund has continued to act as a risk diversifier for the portfolio, and we aim for it to provide benefits in volatile markets. This year the team has made good gains in trend following (following price movements), short-term trading (holding investments for very short-term time horizons) and global macro (trading on global macro signals and changes), while volatility relative Value has been a smaller contributor. Statistical arbitrage (buying and selling holdings which temporarily move out of relationship with each other, but are likely to revert) has been the main detractor whilst the equity market neutral (eliminating sensitivity to the gyrations of the stock market to focus on outperformance) allocation has also detracted. Positioning related to short rates/bonds has also been a key driver of returns, particularly from short-term trading and trend following.

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Schroder Blended Portfolios

Q1 2022

Negative contributors to portfolio performance

Fund name	Fund performance (Q1 2022)	Commentary
Jupiter UK Mid-Cap	-20.89%	The fund is run by Richard Watts, who has established a reputation as one of the strongest stock pickers in the UK market and, as a result, runs a high conviction fund. This year there have been several stocks which have had problems, which Richard argues are only short term or temporary in nature. THG (an e-commerce business with poor short-term trading updates), continues to experience a negative re-rating. Additionally, S4 Capital, Dr Martens, and Auction Technology Group, all faced large short-term drawdowns (peak to trough decline in value). It is worth noting that the manager's dominant theme, UK Mid-Cap growth, has struggled with the style-relevant index – down -14.09% over the quarter. Richard has bounced back from difficult performance periods before (such as 2009 and 2018) and has also sold badly hit names when he believes recovery will not occur. We've witnessed the manager navigate this fund successfully through many investment cycles and whilst monitoring the situation closely, continue to hold the fund in our portfolios.
SDL UK Buffettology	-14.40%	Despite the UK market overall providing one of the only positive returns for the quarter (in Sterling terms), the performance outcome was varied by market capitalisation, with both mid and small-caps facing challenges. With this backdrop, the fund faced challenges given the minimal allocation to large-cap stocks. With rising interest rates, the higher priced faster Growth companies were de-rated by the market, leaving stocks such as Liontrust Asset Management (c.5.85% position size), Games Workshop (c.6.56%) and Dechra Pharmaceuticals (c.4.16%) down -42.09%, -28.85%, and -23.61% respectively.
Jupiter Strategic Bond	-5.37%	On the back of rising interest rates and widening credit spreads (premium companies pay over and above a government reference rate), this fund – alongside certain Fixed Income segments – experienced lower returns. Looking forward, the manager remains broadly equally split across EU, US, UK, and Asia Pacific ex Japan markets, and is thus diversified against any single specific monetary or fiscal regime. With an average interest of c.4.7%, the fund's income is well placed to offset any changes in capital values.

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Q1 2022

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On a regional basis there will be a minor reduction in UK equities to decrease the long-standing home bias; this will then partly fund the global allocation. This will also be funded via reductions in Europe and Japan exposure, albeit that these allocations will largely return to the same levels on a total basis. In order to minimise cash, minor reductions of cash into global treasuries will occur at the relevant risk levels. The overall result will primarily be lower risk levels while return expectations for the long run largely remain unchanged.

Regarding the active-passive split, we continue to retain an equal weighting between the two, this is due to ongoing geopolitical concerns.

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Schroder Blended Portfolios

Q1 2022

Portfolio changes

From an equity style perspective, we continue to retain our neutral exposure to Value and Growth stocks and will be rebalancing to targets on the back of a volatile quarter. We have re-assessed our exposure to Value and Growth, and have concluded to make no changes. We will continue to assess whether the market moves have generated permanent changes to the fundamentals, and thus future expected returns. We will provide more information on this front during next quarter's update, which may shift the exposure.

From an Alternatives perspective, we retain our cautious stance and thus lower correlation to equity markets. We are selling our Gold & Silver position (at a profit since inception) given concerns around future expected interest rate increases and the marginal contribution to the risk of the fund. Inflation protection is still front of mind and will be provided through real assets, inflation linked bonds and property. We will focus our future efforts on searching for funds within this space that are less reliant on equity markets to provide outperformance.

Fixed Income is a hotly debated asset class currently given both the increased levels of inflation being experienced, as well as the change in central bank monetary policy towards rate rises. We currently remain underweight duration (sensitivity to interest rate changes) and are thus cautiously positioning for future interest rate rises. We are starting to discuss whether fixed income rates are becoming attractive again given the large number of interest rate increases are expected. If GDP growth slows this may reduce the number of rate hikes that actually happen. Economic indicators (inversion of the US 10-year minus 2-year rates - a general predictor of an economic slowdown) also creates a new dynamic that needs to be factored in.

From an asset allocation perspective, we have re-classified our Emerging Market Debt (EMD) exposure alongside our strategic bond managers. While previously being classified as an Alternative asset, this amendment will allow us to manage the risk-drivers – such as duration or credit quality – on a more direct basis. Our Fixed Income positioning will continue to be split into Global Government and Global Corporates, with the intention being that Government bonds will act as a diversifier with the inclusion of EMD.

Schroder Tactical Portfolios

Q1 2022

Investment objective

The Fund aims to provide capital growth and income by investing in a diversified range of assets and markets worldwide with a target average annual volatility (a measure of how much the Fund's returns may vary over a year) over a rolling five year period of between [see table below for volatility target range by Portfolio] of that of global stock markets (represented by the MSCI All Country World index).

	Volatility Target[1] (% p.a. over a five year rolling period)	Comparator benchmark[2] IA Mixed Investment sector
Schroder Tactical Portfolio 3	30% to 45% of MSCI ACWI	0-35% shares average
Schroder Tactical Portfolio 4	40% to 55% of MSCI ACWI	20-60% shares average
Schroder Tactical Portfolio 5	50% to 65% of MSCI ACWI	20-60% shares average
Schroder Tactical Portfolio 6	65% to 80% of MSCI ACWI	40-85% shares average
Schroder Tactical Portfolio 7	75% to 90% of MSCI ACWI	40-85% shares average

Source: Schroders 2022. [1]The Funds seek to achieve the target volatility range by varying the weighting of asset types. During the relevant rolling five year period the Fund's volatility may be higher or lower than the target range if the investment manager believes it is necessary to seek to mitigate potential losses. The Fund's potential gains and losses are likely to be constrained by the aim to achieve its target volatility range. [2]The comparator benchmarks have been selected because the Investment Manager believes that this benchmark is a suitable comparison for performance purposes. Global equities are expressed as MSCI All Countries World Index.

Schroder Tactical Portfolios

Q1 2022

Schroder Tactical Portfolios performance

	QTD	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Common Inception[1] (01/02/2017) - 31/03/2022
Schroder Tactical portfolio 3 F Acc	**-3.97**	**-3.97**	**1.08**	**10.90**	**-0.91**	**1.48**	**1.05**	**2.87**
IA Mixed Investment 0-35% shares	-3.08	-3.08	0.21	12.22	-3.54	2.43	0.44	2.56
Schroder Tactical portfolio 4 F Acc	**-3.76**	**-3.76**	**2.49**	**15.96**	**-4.49**	**1.59**	**1.21**	**3.46**
Schroder Tactical portfolio 5 F Acc	**-3.53**	**-3.53**	**3.50**	**20.30**	**-6.71**	**0.91**	**1.95**	**4.03**
IA Mixed Investment 20-60% shares	-3.38	-3.38	1.78	20.05	-7.14	2.89	0.83	3.72
Schroder Tactical portfolio 6 F Acc	**-3.09**	**-3.09**	**5.03**	**24.09**	**-9.06**	**0.52**	**2.30**	**4.50**
Schroder Tactical portfolio 7 F Acc	**-2.60**	**-2.60**	**6.62**	**28.44**	**-11.48**	**-0.21**	**1.96**	**4.82**
IA Mixed Investment 40-85% shares	-3.69	-3.69	5.29	26.47	-7.73	4.36	1.63	5.90

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Schroder Tactical Portfolios
Q1 2022

Positive contributors to portfolio performance

Asset class	CTR[1] (T5)	Absolute return	Commentary
Commodities	0.31%	31.92%	Given the stagflationary (higher inflation and low growth) environment, commodities are a valuable allocation for our portfolios and have been the standout asset class year-to-date. We took some profits on this position in March given the recent strength.
UK Equities	0.10%	0.99%	UK large cap equities rose over the quarter. High exposure to defensive stocks and commodities in the FTSE 100 index means the market is better placed to withstand geopolitical deterioration relative to other regions.

Note: UK equities = FTSE 100 Index Future, UK Multi-Factor Equity Component Fund. Commodities = Lyxor Thomson-Reuters Core Commodity Fund. [1]Contribution to Return for Schroder Tactical Portfolio 5.

Negative contributors to portfolio performance

Asset class	CTR[1] (T5)	Absolute return	Commentary
Corporate Bonds	-1.45%	-5.46%	Elevated inflationary pressure was exacerbated by the war in Ukraine and central banks were surprisingly hawkish (favouring higher interest rates to keep inflation in check). Corporate bonds underperformed government bonds as spreads widened.
Emerging Market Equities	-0.93%	-7.62%	Despite attractive valuations, emerging market equities are vulnerable to high inflation and ongoing Covid restrictions. Russia was removed from the MSCI Emerging Markets Index on 9th March.
Global Equities	-0.89%	-4.08%	Global equities detracted over the period. Despite ending the quarter more positively, it was not enough to offset earlier losses.

Note: Emerging market equities = MSCI EM Index Future; Global equities = Sustainable Multi-Factor Equity Fund, Schroder Global Equity Fund, Schroder Global Equity Completion Fund; Corporate Bonds = Schroder Global Corporate Bond Managed Credit Component, Schroder ISF Global Corporate Bond. [1]Contribution to Return for Schroder Tactical Portfolio 5.

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Schroder Tactical Portfolios

Q1 2022

Portfolio updates

The widespread shock caused by the Russian invasion of Ukraine and its grave human implications fed through into markets in Q1, with equities falling and bond yields rising. Against this backdrop, the Schroder Tactical portfolios posted negative returns over the quarter. Allocations to commodities were a key driver of positive returns, whilst equities and fixed income assets struggled to perform.

It was a difficult start to the year - investors were already contending with slowing global growth, continued elevated inflation and impending tightening from the Federal Reserve. Russia's move into Ukraine added further uncertainty to already volatile market conditions. This resulted in us tactically downgrading our view of equities in February, moving to an underweight position.

From a regional perspective, the portfolios had been overweight emerging market equities where valuations are attractive. However, with emerging markets vulnerable to higher inflation and some grappling with ongoing Covid restrictions, this position was closed in March. Underweight positions were established in US and European equities, as the risk of a global recession increased and the squeeze on disposable incomes in a stagflationary (higher inflation and low growth) environment is likely to feed through to earnings growth. Positive contributions from UK equities did not manage to outweigh losses elsewhere in a quarter that rattled equity markets worldwide.

Given the stagflationary environment, physical commodities have been a valuable allocation within the portfolios and have been the standout asset class so far this year. However, with the strength of the moves in recent weeks, the portfolios have taken some profits on physical commodities, diversifying exposure into global energy equities.

Turning to bond markets, the portfolios remained underweight duration given the inflationary environment and likelihood of several rate hikes this year. This position was beneficial as government bond yields rose sharply in Q1. Given how far yields have moved, we reduced this underweight as the quarter progressed. With further supply disruptions caused by the geopolitical situation in Europe, we expect the trade-off between growth and inflation to continue to deteriorate, posing further challenges to central bank policy.

We upgraded our view of fixed income to neutral, closing the portfolio's small underweight position in March. We see an opportunity for a slight tightening of credit spreads, particularly in Europe where we believe the European Central Bank will remain supportive in the near term. In currencies, we retained our preference for the US dollar given its safe-haven status.

Schroder Tactical Portfolios
Q1 2022

Outlook

Although the appalling events in Ukraine continue to dominate headlines, we must remain focused on the medium term outlook and all of the factors shaping the global economy. The themes that we identified at the beginning of the year, particularly slowing growth momentum and persistent inflation, have intensified due to Russia's invasion of Ukraine. From a trade and finance perspective, Russia is not significant enough to derail the world economy. However, the links through commodity prices are key and Russian aggression looks set to keep energy and food costs elevated. The fall in asset prices - if sustained - will also dampen global activity as will higher uncertainty. As a result, our base case is moving towards a stagflationary (higher inflation and low growth) environment with the risks skewed further in that direction.

The multifaceted economic picture presents a challenge for investors but one for which our approach is well equipped. Diversification is paramount, enabling the fund to capture opportunities in a risk-controlled way. The key calls are to be selectively underweight bonds and equities with an allocation to commodities. This is a more cautious and diversified stance relative to last year as concerns over stagflation return.

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Schroder Managed Defensive Fund

Q1 2022

Investment objective

The Fund aims to provide capital growth and income in excess of the ICE BofA Sterling 3-Month Government Bill Index plus 2% per annum (after fees have been deducted) over a three to five year period, whilst also seeking to mitigate the risk of incurring a loss greater than 10% over any investment period, by investing in a diversified range of assets and markets worldwide. The Fund will seek to achieve a target average volatility (a measure of how much the Fund's returns may vary over a year) over a rolling five year period of 4% per annum. This cannot be guaranteed and your capital is at risk. The Fund invests directly or indirectly through derivatives in equity or equity related securities and fixed and floating rate securities, issued by governments, government agencies, supra-nationals or corporate issuers, worldwide. The Fund seeks to achieve the target average volatility by varying the weighting of asset types. During the market cycle the Fund's volatility may be higher or lower than the target average level if the Investment Manager believes it is necessary to seek to mitigate potential losses. The Fund's potential gains and losses are likely to be constrained by the aim to achieve its target average volatility. The Fund may also invest in alternative assets including funds that use absolute return strategies or funds that invest indirectly in real estate, infrastructure and commodities. The Fund may also invest in money market instruments, collective investment schemes, closed ended investment schemes, real estate investment trusts and exchange traded funds, and hold cash (exceptionally up to 100% of the Fund's assets may be cash or money market instruments). The Fund may invest more than 10% of its assets in collective investment schemes managed by Schroders. The Fund may use derivatives with the aim of achieving investment gains, reducing risk or managing the Fund more efficiently (for more information please refer to section 10 of Appendix III of the Prospectus). The Fund may use leverage and take short positions.

Source: Schroders 2022.

Schroder Managed Defensive Fund

Q1 2022

Schroder Managed Defensive Fund performance

	QTD	YTD	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021	01/04/2019 - 31/03/2020	01/04/2018 - 31/03/2019	01/04/2017 - 31/03/2018	Since Inception (01/06/2018) - 31/03/2022
Schroder Managed Defensive F Acc	**-3.74**	**-3.74**	**1.00**	**6.94**	**0.04**	—	—	**2.34**
UK Cash + 2%	0.42	0.42	1.99	2.36	2.96	3.06	2.41	2.56

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Schroder Managed Defensive Fund

Q1 2022

Positive contributors to portfolio performance

Asset class	CTR[1]	Commentary
Commodities	0.34%	Commodities have been the standout asset class year-to-date. Strong performance has been driven by sharply higher prices for energy and wheat following Russia's invasion of Ukraine.
UK Equities	0.04%	UK large cap equities gained some strength over the quarter and showed resilience as investors began to price in the additional inflationary shock of the invasion.

Note: UK equities = FTSE 100 Index Future. Commodities = Bloomberg Commodities Index TRS. [1]Contribution to Return for Schroder Managed Defensive fund.

Negative contributors to portfolio performance

Asset class	CTR[1]	Commentary
Government Bonds	-1.45%	Government bond yields rose sharply. Elevated inflationary pressure was exacerbated by the war in Ukraine and central banks were surprisingly hawkish.
North American Equities	-1.12%	US stocks declined in Q1. Russia's invasion of Ukraine amplified existing concerns over inflation pressures, and the Federal Reserve implemented a rate hike in March with a clear path to further tightening in subsequent committee meetings.
Corporate Bonds	-1.00%	Corporate bond markets saw significantly negative returns and widening spreads as they underperformed government bonds.

Note: North American equities = S&P 500 Index Future; Corporate Bonds = Investment Grade Total Return Swaps (IYDU Index, QW5A Index, IBOXIG Index). [1]Contribution to Return for Schroder Managed Defensive fund.

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Schroder Managed Defensive Fund

Q1 2022

Portfolio updates

The widespread shock caused by the Russian invasion of Ukraine and its grave human implications fed through into markets in Q1, with equities falling and bond yields rising. Against this backdrop, the Schroder Managed Defensive Fund posted negative returns over the quarter. Allocations to commodities were a key driver of positive returns, whilst equities and fixed income assets struggled to perform.

It was a difficult start to the year - investors were already contending with slowing global growth, continued elevated inflation and impending monetary policy tightening from the Federal Reserve. Russia's move into Ukraine added further uncertainty to already volatile market conditions. As a result, we reduced the exposure to equities this quarter as our view on this asset class turned negative.

Similarly in bonds, the overall exposure was reduced over Q1. Government bond yields rose considerably and central banks turned increasingly hawkish (favouring interest rate rises as a tool to contain inflation), causing markets to price in a faster pace of monetary normalisation. With interest rates and inflation on the rise the investment grade allocation was reduced. The inflation-linked bonds position was closed as we believe the Federal Reserve's top priority is to control inflation.

In February, an overweight UK versus US government bonds position was added given the risks to growth posed by higher UK energy prices. This position was later closed in order to book profits following a strong run.

We maintained our commodity exposure over the quarter given the volatile and stagflationary (high inflation, slowing growth) environment. Physical commodities have been a valuable allocation and have been the standout asset class so far this year.

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Schroder Managed Defensive Fund

Q1 2022

Portfolio changes

Although the appalling events in Ukraine continue to dominate headlines, we must remain focused on the medium term outlook and all of the factors shaping the global economy. The themes that we identified at the beginning of the year, particularly slowing growth momentum and persistent inflation, have intensified due to Russia's invasion of Ukraine.

From a trade and finance perspective, Russia is not significant enough to derail the world economy. However, the links through commodity prices are key and Russian aggression looks set to keep energy and food costs elevated. The fall in asset prices - if sustained - will also dampen global activity as will higher uncertainty. As a result, our base case is moving towards a stagflationary environment with the risks skewed further in that direction.

The multifaceted economic picture presents a challenge for investors but one for which our approach is well equipped. Diversification is paramount, enabling the fund to capture opportunities in a risk-controlled way. We maintain a more cautious and diversified stance relative to last year as concerns over stagflation return.

What are the risks?

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

ALL: Model Portfolios invest in underlying funds that may have some or all of these risks present.

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 portfolios may lose value as a result of movements in foreign exchange rates.

Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative.

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 portfolios may not be able to sell a security for full value or at all.

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.

Important information

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