# Schroder Investment Solutions

## Quarterly Bulletin

Q1 2023

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 2023

| 2018 | 2019 | 2020 | 2021 | 2022 | YTD | Q1 2023 |
|---|---|---|---|---|---|---|
| Global High Yield Bonds 1.9 | US Equities 25.7 | Asia Ex Japan Equities 21.2 | Commodities 41.6 | Commodities 41.9 | Europe ex UK Equities 8.9 | Europe ex UK Equities 8.9 |
| Global Property 1.2 | Europe ex UK Equities 20.0 | US Equities 16.2 | Global Property 28.4 | UK Cash 1.4 | US Equities 4.5 | US Equities 4.5 |
| Global Treasury Bonds 1.1 | UK Equities 19.2 | EM Equities 14.7 | US Equities 27.6 | UK Equities 0.3 | UK Index-linked Gilts 4.3 | UK Index-linked Gilts 4.3 |
| UK Gilts 0.6 | Global Property 18.3 | UK Index-linked Gilts 11.0 | UK Equities 18.3 | Global High Yield Bonds -1.7 | Japanese Equities 3.4 | Japanese Equities 3.4 |
| UK Cash 0.6 | Japanese Equities 14.6 | Japanese Equities 9.5 | Europe ex UK Equities 16.7 | Japanese Equities -4.1 | UK Equities 3.1 | UK Equities 3.1 |
| US Equities 0.1 | EM Equities 13.9 | UK Corporate Bonds 9.1 | UK Index-linked Gilts 4.2 | Europe ex UK Equities -7.6 | Global Treasury Bonds 2.8 | Global Treasury Bonds 2.8 |
| UK Index-linked Gilts -0.3 | Asia Ex Japan Equities 13.6 | UK Gilts 8.3 | Japanese Equities 2.0 | US Equities -9.4 | Global Corporate Bonds 2.8 | Global Corporate Bonds 2.8 |
| UK Corporate Bonds -2.2 | Commodities 13.1 | Europe ex UK Equities 7.5 | Global High Yield Bonds 1.9 | Asia Ex Japan Equities -9.6 | UK Corporate Bonds 2.5 | UK Corporate Bonds 2.5 |
| Global Corporate Bonds -2.7 | UK Corporate Bonds 11.0 | Global Corporate Bonds 7.2 | UK Cash 0.1 | EM Equities -10.0 | UK Gilts 2.0 | UK Gilts 2.0 |
| Japanese Equities -8.4 | Global Corporate Bonds 10.6 | Global Treasury Bonds 4.6 | Global Corporate Bonds -1.0 | Global Treasury Bonds -11.7 | Asia Ex Japan Equities 1.5 | Asia Ex Japan Equities 1.5 |
| Commodities -8.5 | Global High Yield Bonds 8.2 | Global High Yield Bonds 3.7 | EM Equities -1.6 | Global Property -14.9 | EM Equities 1.1 | EM Equities 1.1 |
| Asia Ex Japan Equities -9.0 | UK Gilts 6.9 | UK Cash 0.2 | Global Treasury Bonds -2.0 | Global Corporate Bonds -15.3 | UK Cash 0.9 | UK Cash 0.9 |
| EM Equities -9.3 | UK Index-linked Gilts 6.4 | UK Equities -9.8 | UK Corporate Bonds -3.3 | UK Corporate Bonds -19.3 | Global High Yield Bonds 0.3 | Global High Yield Bonds 0.3 |
| UK Equities -9.5 | Global Treasury Bonds 5.5 | Global Property -11.0 | Asia Ex Japan Equities -3.8 | UK Gilts -23.8 | Global Property -1.7 | Global Property -1.7 |
| Europe ex UK Equities -9.9 | UK Cash 0.7 | Commodities -26.1 | UK Gilts -5.2 | UK Index-linked Gilts -33.6 | Commodities -7.5 | Commodities -7.5 |

Source: Morningstar as at March 2023.

**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.**

# Market commentary

## Q1 2023

Global equities gained in Q1, buoyed by receding recession worries in developed markets (for example, the US and the UK). Gains came despite the collapse of Silicon Valley Bank, which caused significant volatility in bank shares. Growth stocks outperformed value in the quarter. In fixed income, government bond yields fell (meaning prices rose).

The short-lived market turbulence that followed the collapse of Silicon Valley Bank (SVB) in March did not prevent investor optimism leading US stocks higher over the quarter. The Federal Reserve (Fed) raised rates twice, and data indicated that inflation is cooling, leading to expectations the hiking cycle could shortly come to an end.

Eurozone shares notched up strong gains in Q1 despite volatility in the banking sector. Gains were led by the information technology, consumer discretionary and communication services sectors. Laggards were real estate and energy. Financials had a turbulent time in March following the failure of US lender Silicon Valley Bank. A week later, troubled lender Credit Suisse was bought by UBS in a deal brokered by the Swiss authorities. However, the eurozone financials sector posted gains for the quarter overall, with Credit Suisse's problems largely seen as being contained. The European Central Bank raised interest rates by 50 basis points in both February and March. Eurozone inflation declined to a one-year low in March. Consumer prices rose by 6.9%, down from 8.5% in February. However, core inflation (excluding food and energy costs) rose to 5.7% from 5.6%.

UK equities rose over the quarter. Economically sensitive areas outperformed, in line with other markets. This occurred amid hopes that central banks might be in a position to 'pivot' to cutting interest rates in late 2023. Industrials outperformed as did the consumer discretionary sector. The latter reflected a very strong recovery in many domestically focused areas. These bounced back as it transpired the UK economy had performed resiliently during the energy crisis. The latest quarterly GDP data from the Office for National Statistics revealed that the UK economy had not contracted in Q4 2022, contrary to consensus expectations. As a result, the economy dodged a technical recession by avoiding two consecutive quarters of decline (following the contraction recorded for Q3 2022). In its latest quarterly forecasts, the Bank of England (BoE) said it still expected the country to fall into a recession later in 2023.

Japanese stocks rose strongly in Q1 with the Topix up 7.2% in yen terms. Throughout January, investors' attention remained focused on the Bank of Japan (BoJ), following the surprise adjustment to the yield curve control policy which was announced in mid-December. Contrary to investors' speculation, BoJ governor Mr Kuroda left policy unchanged at the January policy meeting. Discussion moved to the policy stance of new governor, Mr Kazuo Ueda, who is scheduled to replace Mr Kuroda in early April.

Asia ex Japan equities recorded a positive performance in the first quarter, with strong gains by Taiwan, Singapore and South Korea offsetting weaker performances by Hong Kong, India and Malaysia. Chinese shares achieved robust gains at the start of the quarter after Beijing loosened its Covid-19 restrictions that had constrained the country's economic growth. Supportive property market measures and a loosening of the regulatory crackdown on China's technology companies also bolstered investor sentiment.

# Market commentary
## Q1 2023

Emerging markets (EM) posted positive returns over the quarter, but lagged the MSCI World Index. The start of the year brought with it renewed optimism about EM, given the re-opening of China's economy. However, February and March saw US-China tensions re-escalate and a widespread loss of confidence in US and European banks. Central banks continued to raise interest rates, with US rates reaching their highest level since 2007 in March. The best-performing market was the Czech Republic. Mexico outperformed against a backdrop of improving economic data while Taiwan and Korea were beneficiaries of optimism about global growth. Peru, Indonesia and Chile outperformed too.

The first quarter of the year began with positive sentiment on the growth outlook as energy costs fell and China's economy reopened. But there was also evidence that the encouraging inflation picture was starting to reverse as core inflation measures ticked higher once more. However, the collapse of Silicon Valley Bank in mid-March dwarfed concerns over re-accelerating inflation and prompted a sharp rally in government bond markets. As markets reacted to fears of a banking crisis, government bond markets went from pricing in rate hikes to discounting sizeable rate cuts in some markets.

The S&P GSCI Index recorded a negative performance in the first quarter. Energy and livestock were the worst-performing components of the index, while precious metals and industrial metals achieved price gains. Within energy, prices for natural gas, gas oil and heating oil were all sharply lower. In precious metals, gold achieved a robust price gain while silver achieved a more modest price uplift. Within industrial metals, the price of nickel was sharply lower in the first quarter, while the decline in the price of lead was more muted. Copper and aluminium prices both advanced in the quarter.

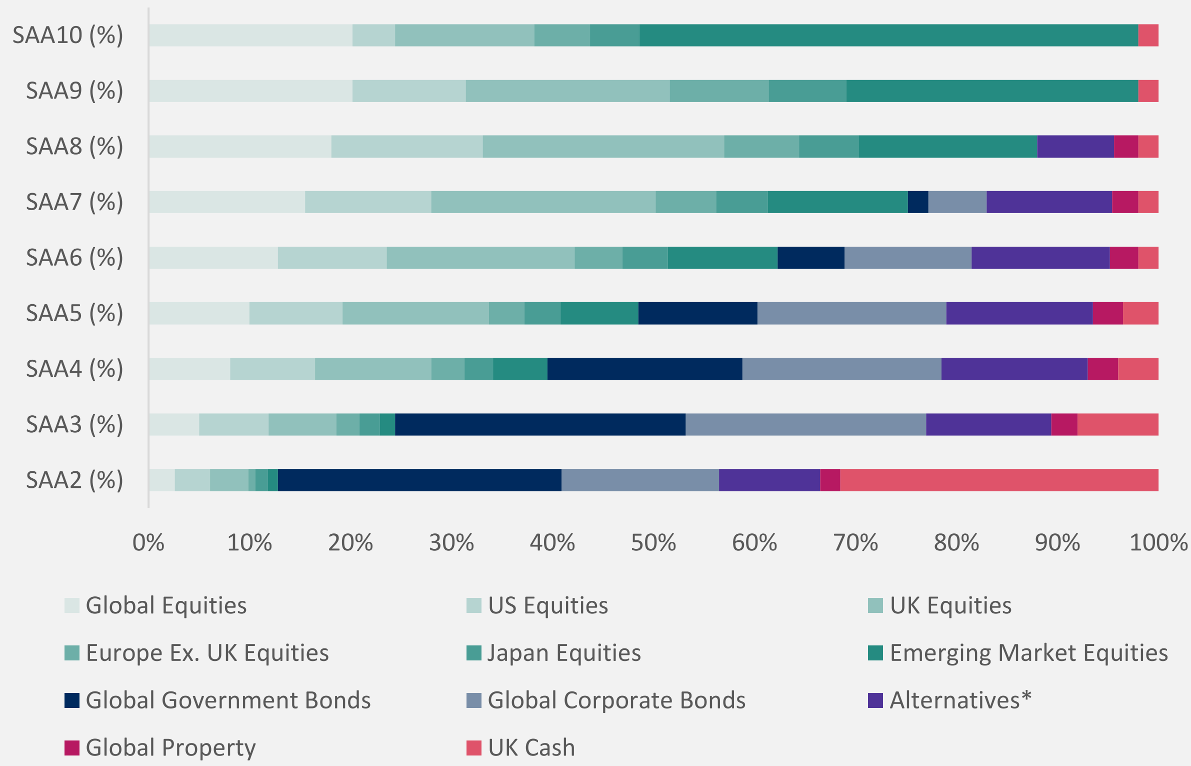
Source: Schroders. **Please note that any past performance mentioned in this document is not a guide to future performance and may not be repeated. Information is provided for illustrative purposes only and should not be considered as a recommendation to buy or sell.**

# Asset allocation
## Q1 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 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 2023

MAIN ASSET CLASSES

| Equities | Government bonds | Commodities | Credit |
|---|---|---|---|
| We remain neutral given the risk of further financial stress and expectations of a cyclical slowdown. | We remain positive as higher rates are beginning to bite, and economic activity is showing signs of slowing. | We remain neutral as slowing global growth, combined with easing supply dynamics suggests limited upside. | Although wider spreads provide opportunities to buy, we remain neutral due to uncertainty over bank funding costs. |

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

EQUITIES

| Category | | View | | Comments |
|---|---|---|---|---|
| **US** | | ● | △ | We believe that valuations are now fairer after the recent correction, therefore a neutral score is now more appropriate. |
| **UK** | | ● | | Domestic issues aplenty but we remain neutral on valuation grounds. |
| **Europe** | | ● | ▽ | Downgrading to neutral as sentiment is less positive and valuations are not compelling. |
| **Japan** | | ● | | Whilst valuations are fair, we remain neutral given the expectations of a cyclical slowdown. |
| **Global Emerging Markets**[1] | | ● | ▽ | We have downgraded to neutral as the combination of persistent inflation in the US and financial stress may, in the short term, put upward pressure on the US dollar and the asset class. |
| **Asia ex Japan** | China | ● | | We continue to like China given its de-synchronised cycle and cheap valuations. |
| | EM Asia ex China | ● | △ | In line with our view on global emerging markets, we are tempering our positive view. |

Source: Schroders, March 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 Active Model Portfolios

## Q1 2023

### Schroder Active Model Portfolios performance

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from the 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.

| | Q1 2023 | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Common Inception (01/02/2008) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Active Portfolio 2** | **1.53** | **1.53** | **-1.86** | **0.44** | **7.38** | **-2.17** | **1.84** | **0.80** | **6.37** | **-0.24** | **5.65** | **1.64** | **2.62** |
| UK CPI (lagged)* | 0.94 | 0.57 | 10.42 | 6.18 | 0.41 | 1.71 | 1.87 | 2.71 | 2.30 | 0.28 | 0.03 | 1.72 | 2.96 |
| **Schroder Active Portfolio 3** | **1.86** | **1.86** | **-3.20** | **1.25** | **14.36** | **-3.17** | **3.73** | **1.63** | **10.08** | **0.20** | **10.67** | **3.91** | **4.69** |
| IA Mixed Investment 0-35% Shares | 1.65 | 1.65 | -5.84 | 0.21 | 12.22 | -3.54 | 2.43 | 0.44 | 9.93 | -1.22 | 7.86 | 1.82 | 3.05 |
| **Schroder Active Portfolio 4** | **2.00** | **2.00** | **-3.19** | **1.86** | **20.14** | **-4.72** | **3.37** | **2.69** | **12.92** | **0.29** | **12.19** | **7.27** | **5.71** |
| **Schroder Active Portfolio 5** | **2.10** | **2.10** | **-3.15** | **2.23** | **25.26** | **-6.20** | **3.44** | **4.12** | **15.14** | **-0.20** | **13.22** | **7.09** | **6.21** |
| IA Mixed Investment 20-60% Shares | 1.61 | 1.61 | -5.00 | 1.79 | 20.05 | -7.14 | 2.89 | 0.83 | 13.05 | -2.12 | 8.78 | 3.87 | 3.82 |
| **Schroder Active Portfolio 6** | **2.35** | **2.35** | **-2.86** | **2.93** | **31.44** | **-6.83** | **2.57** | **7.06** | **18.21** | **-1.00** | **14.32** | **7.77** | **7.24** |
| **Schroder Active Portfolio 7** | **2.58** | **2.58** | **-2.51** | **3.46** | **37.11** | **-6.46** | **2.70** | **7.86** | **21.24** | **-0.93** | **13.66** | **8.78** | **8.05** |
| IA Mixed Investment 40-85% Shares | 2.25 | 2.25 | -4.62 | 5.38 | 26.47 | -7.73 | 4.36 | 1.63 | 17.48 | -2.72 | 10.71 | 5.83 | 5.20 |
| **Schroder Active Portfolio 8** | **2.89** | **2.89** | **-2.34** | **3.84** | **41.93** | **-7.59** | **1.71** | **7.48** | **25.53** | **-1.98** | **13.61** | **3.35** | **7.88** |
| **Schroder Active Portfolio 9** | **3.49** | **3.49** | **-1.94** | **1.66** | **46.49** | **-5.85** | **1.50** | **9.25** | **30.72** | **-3.21** | **14.13** | **-2.53** | **8.16** |
| **Schroder Active Portfolio 10** | **3.17** | **3.17** | **-2.40** | **-1.22** | **46.74** | **-10.35** | **0.90** | **8.28** | **32.74** | **-5.92** | **13.87** | **-8.58** | **6.71** |
| IA Flexible Investment | 1.82 | 1.82 | -3.98 | 5.00 | 29.36 | -8.05 | 3.34 | 2.34 | 19.15 | -3.94 | 11.39 | 4.69 | 5.20 |

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. The common inception return figures are annualised. Portfolio returns may vary from individual investor returns due to timings and cash flows. CPI data is one month lagged (as at 28 February 2023).

# Schroder Active Model Portfolios
## Q1 2023

## Positive contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Ninety One UK Alpha | 6.12% | UK Equities generated positive returns overall for the first quarter of the year. For the NinetyOne UK Alpha Fund, this was largely driven by holdings in the industrials, consumer cyclical and communication services sectors. Over the period, Wetherspoon PLC and Easyjet PLC were the top performing companies for the fund. Volatility in the banking sectors of the US and Europe influenced global sentiment towards financial services and the sector was negative in the UK. Although the UK economy has proved to be resilient, inflation remains a concern and the Bank of England still expects the country to fall into a recession later in 2023. |
| Lazard Global Thematic Focus | 8.27% | We added the Lazard Global Thematic Fund to our Global Equity allocation in April 2022 as a core holding. The fund follows a thematic approach to investing by focusing on structural change and disruption in global industries and companies. The managers typically invest in companies which are expected to generate above average positive returns based on future potential growth. Over the quarter the fund benefitted from its exposure to sectors which are not as severely impacted by a weaker economy such as technology and communication service companies. Microsoft Corp and Alphabet Inc were the strongest performers in these sectors. |
| Royal London International Government Bond | 2.57% | Government bonds had mixed performance over the quarter but ended in positive return territory. Although most central banks continued with their interest rate hikes, some adjusted their stance which influenced investor sentiment. Bond yields fell in January as investors anticipated a peak in interest rates and again in March when they started to anticipate interest rate cuts. This meant that bond prices were up over each of these periods, and sufficiently so to offset the brief fall in value over February. We believe that bonds are more fairly priced and there will be good return potential going forward. We don't expect the pace or magnitude of interest rate rises to continue for much longer and are more positive about the asset class. |

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# Schroder Active Model Portfolios

## Q1 2023

### Negative contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Neuberger Berman Uncorrelated Strategies | -6.66% | The Neuberger Berman Uncorrelated Strategies Fund seeks diversification of returns through investing in different trading strategies across a variety of time horizons, styles, and asset classes. This approach was challenged over the quarter. Equity markets were resilient and generated positive performance. This meant that some strategies were unable to take advantage of market volatility. In the history of the fund (inception 31 May 2017), there have only been two prior months where all strategies were negative. The managers view this as an unusual outcome and are assessing the performance attributions to adjust their risk levels accordingly. |
| Neuberger Berman US Large Cap Value | -4.20% | The collapse of several US regional banks sent shockwaves through markets. This brought back fears of a potential widespread financial crisis but policymakers of the Federal Open Market Committee (FOMC) asserted that the banking system is sound and resilient. Although the fund had less exposure to companies in the financial services sector, relative to its benchmark, the allocation still experienced negative returns. This offset the gains made by holding companies in the basic materials sector which benefited in part from recovery activity in China. The US market continues to focus on the level and trajectory of inflation alongside assumptions over how the Federal Reserve will act to counteract this. The manager is evaluating the implications of a weaker economy and is more cautious in their outlook and risk appetite. |
| Schroder Global Cities Real Estate | -3.23% | Real Estate continues to be negatively affected by increasing interest rates. Companies in this sector are affected by higher borrowing costs in both their capacity to service existing debt and to expand. Despite this the managers are positive about the outlook for the companies they invest in. The focus of the fund is on companies that own assets in the most environmentally and economically sustainable cities around the world. ESG is integrated into the investment process and is a key factor in determining portfolio inclusion and position sizing. Although the market remains challenging, it provides an opportunity for the managers to invest in companies with a lower valuation due to negative market sentiment rather than a deterioration in the fundamentals that define quality businesses. Over the quarter the fund added a position in Simon Property Group which owns shopping malls in the United States. The company has a high dividend yield that is covered by recurring earnings, a strong balance sheet and scale in a market segment that requires it. |

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# Schroder Active Model Portfolios

## Q1 2023

## Portfolio updates

We are monitoring the economic and market environment to understand the risks and opportunities that may arise. A key concern remains inflation and the resulting consequences. Although interest rates appear to be near their peak, we believe that central banks will be reluctant to cut interest rates until they consider inflation is clearly under control. Given this, we remain cautiously optimistic about our fixed income allocation. We expect the defensive characteristics of government bonds to re-assert themselves as inflationary pressures continue to fall. This offers protection against the potential for a more meaningful growth slowdown. We have also maintained our exposure to higher credit quality assets within our corporate bond allocations.

We believe that higher-quality and defensive businesses will be resilient going forward and our equity allocations have been adjusted to reflect this. Quality companies are less vulnerable to economic downturns and given the expected recession in developed markets we have enhanced this focus within Global Equities. We continue to have a tilt towards value-orientated strategies in US Equity. These strategies invest 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. This is balanced by a higher weighting to growth-orientated strategies in Japanese Equities. These strategies invest in companies that are expected to offer future growth prospects that are above the average in their industry or sector. Interest rates in Japan remain low and this is supportive for businesses in the high growth phase.

We expect that market volatility will remain elevated and that our allocation to alternative assets will continue to benefit investors. Our allocation is currently tilted towards risk diversifying assets. These holdings provide a safety net when other asset classes drop in value. A move to return enhancing assets will require a balance between the level of risk taken relative to the return generation potential. We continue to carefully assess these opportunities to maximise the risk and reward.

A long-term perspective is essential to achieving success in investing and we are committed to applying our disciplined approach to asset allocation and risk management. Our portfolios are positioned to navigate the changing market environment and capitalise on opportunities as they arise.

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# Schroder Active Model Portfolios

## Q1 2023

## Portfolio changes

In April each year we reassess our Strategic Asset Allocation (SAA). This is a portfolio strategy which involves setting target allocations for various asset classes and rebalancing periodically. Rebalancing involves increasing and reducing exposure to asset classes within a portfolio to reflect any changes in the expected long-term returns from asset classes.

In developing the long-term SAA, the Investment Committee is supported by the Schroders Economics and Multi-Asset teams. We make use of a proprietary tool to produce a set of well-diversified portfolios, positioned to perform throughout various market conditions and cycles. Key inputs into the tool are our 30-year return forecasts and the historic volatility and correlations of asset classes.

In our latest return forecast, we revised up the return we expect on cash over the long-term which in turn, led us to revise up expected returns for other asset classes. As a result, we increased exposure to government bonds within the portfolios that hold the asset class, funded through a reduction in equities. This provides an opportunity for these portfolios to deliver their expected level of long-term returns at a lower level of expected risk.

We also adjusted the regional allocation within Equities. We reduced the allocation to UK, Japanese and Emerging Market Equities and increased the allocation to US Equities. We also increased the allocation to the Global Equity asset class. This asset class captures thematic opportunities that affect all investors on a global basis and can help to improve diversification.

The portfolios were re-balanced to the updated strategic asset allocation weights and adjustments to fund allocations were made in line with our current market views.

The following fund additions and sales were made at our April 2023 rebalance:

In line with our preference for larger companies with defensive quality characteristics, we have added the Fidelity Global Dividend Fund to the Global Equity allocation. The portfolio manager follows a stock selection process that focuses on companies with consistent cashflow, transparent financial statements and strong governance. Limiting negative returns in challenging market conditions, relative to the global equities, is a key feature for the fund. The earnings generated by companies within the fund have proved to be resilient and we believe this will be valuable as recessionary concerns mount.

The announced departure of Simon Brazier, the lead manager of the Ninety One UK Alpha Fund, triggered a review under our sell-discipline policy. Our policy states that the departure of a key person results in an evaluation of the strategy to determine if it is still fit for purpose. Based on our analysis of the new managers preferred approach, we have decided to sell the fund. The proceeds were distributed between the JO Hambro UK Dynamic fund and the TB Evenlode Income fund. These are core holdings in the UK Equity asset class which we believe will effectively navigate the impending recession risk and worsening growth and inflation environment.

Our allocation to the Nikko AM Japan Value Fund has been switched in favour of the Morant Wright Nippon Yield fund. We believe there are attractive opportunities for medium sized companies within the Japanese market and that the manager is well positioned to take advantage of these. The philosophy of the fund is to invest in attractively valued companies, with very strong balance sheets and modest growth prospects. An assessment of corporate governance is a crucial part of the process and the manager looks for management teams who have a track record of making capital allocations in the best interest of shareholders. The overall exposure of the asset class remains tilted towards growth-orientated strategies through the allocation to the JP Morgan Japan Fund.

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# Schroder Strategic Index Model Portfolios

## Q1 2023

### Schroder Strategic Index Model Portfolios performance

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| | Q1 2023 | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Common Inception (01/02/2011) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Strategic Index Portfolio 2** | **2.24** | **2.24** | **-3.59** | **-0.59** | **5.40** | **0.71** | **3.00** | **-0.23** | **9.39** | **0.82** | **9.15** | **-0.71** | **3.06** |
| UK CPI (lagged)* | 0.94 | 0.57 | 10.42 | 6.18 | 0.41 | 1.71 | 1.87 | 2.71 | 2.30 | 0.28 | 0.03 | 1.72 | 2.83 |
| **Schroder Strategic Index Portfolio 3** | **2.76** | **2.76** | **-5.13** | **0.32** | **11.09** | **-0.64** | **4.07** | **0.30** | **14.77** | **1.20** | **14.50** | **-0.04** | **4.87** |
| IA Mixed Investment 0-35% Shares | 1.65 | 1.65 | -5.84 | 0.21 | 12.22 | -3.54 | 2.43 | 0.44 | 9.93 | -1.22 | 7.86 | 1.82 | 2.93 |
| **Schroder Strategic Index Portfolio 4** | **2.82** | **2.82** | **-4.63** | **1.92** | **15.69** | **-2.50** | **4.51** | **0.90** | **17.28** | **-0.21** | **15.53** | **2.93** | **5.75** |
| **Schroder Strategic Index Portfolio 5** | **2.81** | **2.81** | **-4.20** | **2.97** | **19.51** | **-3.76** | **6.05** | **0.60** | **20.39** | **-0.33** | **14.67** | **3.37** | **6.18** |
| IA Mixed Investment 20-60% Shares | 1.61 | 1.61 | -5.00 | 1.79 | 20.05 | -7.14 | 2.89 | 0.83 | 13.05 | -2.12 | 8.78 | 3.87 | 3.90 |
| **Schroder Strategic Index Portfolio 6** | **2.87** | **2.87** | **-3.50** | **4.53** | **23.76** | **-5.36** | **5.70** | **1.19** | **23.23** | **-1.91** | **14.09** | **3.23** | **6.46** |
| **Schroder Strategic Index Portfolio 7** | **2.91** | **2.91** | **-2.75** | **6.11** | **28.97** | **-7.46** | **5.09** | **1.53** | **26.49** | **-2.70** | **13.01** | **5.08** | **6.91** |
| IA Mixed Investment 40-85% Shares | 2.25 | 2.25 | -4.62 | 5.38 | 26.47 | -7.73 | 4.36 | 1.63 | 17.48 | -2.72 | 10.71 | 5.83 | 5.45 |
| **Schroder Strategic Index Portfolio 8** | **2.94** | **2.94** | **-2.13** | **7.53** | **32.65** | **-9.55** | **4.75** | **2.44** | **29.68** | **-4.00** | **12.27** | **-0.18** | **6.43** |
| **Schroder Strategic Index Portfolio 9** | **3.06** | **3.06** | **-1.68** | **5.55** | **35.33** | **-10.35** | **3.07** | **4.09** | **32.42** | **-5.57** | **13.40** | **-4.46** | **5.87** |
| **Schroder Strategic Index Portfolio 10** | **2.49** | **2.49** | **-2.85** | **2.73** | **36.61** | **-10.86** | **2.11** | **4.97** | **34.91** | **-6.68** | **14.64** | **-8.25** | **5.09** |
| IA Flexible Investment | 1.82 | 1.82 | -3.98 | 5.00 | 29.36 | -8.05 | 3.34 | 2.34 | 19.15 | -3.94 | 11.39 | 4.69 | 5.39 |

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. The common inception return figures are annualised. Portfolio returns may vary from individual investor returns due to timings and cash flows. CPI data is one month lagged (as at 28 February 2023).

## Positive contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| HSBC Global Government Bond Index | 3.06% | Government bonds had mixed performance over the quarter but ended in positive return territory. Although most central banks continued with their interest rate hikes, some adjusted their stance which influenced investor sentiment. Bond yields fell in January as investors anticipated a peak in interest rates and again in March when they started to anticipate interest rate cuts. This meant that bond prices were up over each of these periods, and sufficiently so to offset the brief fall in value over February. We believe that bonds are more fairly priced and there will be good return potential going forward. We don't expect the pace or magnitude of interest rate rises to continue for much longer and are more positive about the asset class. |
| HSBC FTSE All-Share Index | 2.86% | The UK Equity market continued its strong performance from the last quarter and had positive returns for Q1 2023. Performance was largely driven by sectors which are not as severely impacted by a weaker economy. These include companies in the Industrials and Energy sectors. Financial Services also contributed to performance with a top contribution from HSBC Holdings which had a return of 9.91% over the quarter. This was despite the volatility across banking stocks and the announcement that HSBC would be purchasing Silicon Valley Bank UK. |
| Fidelity Index Europe ex UK | 7.86% | European equity markets had a strong start to the year led by companies in the consumer cyclical, industrials and technology sectors. At a country level, France, Germany and the Netherlands were top contributors. Growth in the region has been more resilient than expected despite core inflation remaining high. Despite the turbulence in financial services, the only performance detractors over the period were energy and real estate companies. |

## Negative contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| iShares Environment & Low Carbon Tilt Real Estate Index | -4.26% | Turmoil in the US and European banking sectors had knock on effects in the real estate market. US real estate exposure is approximately two-thirds of the index and saw negative returns over the quarter. This was coupled with worries over higher financing costs and weaker occupancy rates in Europe. As a result, exposure in Germany was a significant detractor from performance despite the smaller holding size in the index. Since central banks began increasing interest rates, negative sentiment has been directed towards the real estate sector. Although this is likely to continue, property still offers a reasonable yield as well as some protection against inflation in sub-sectors where rental increases are tied to inflation. |

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# Schroder Strategic Index Model Portfolios

## Q1 2023

## Portfolio updates

In implementing the Strategic Index portfolios, we do not express short-term tactical views about the direction of markets. With asset allocation being the biggest driver of long-term performance, it is important to have a robust asset allocation framework with an appropriate balance between asset classes, sectors and regions.

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# Schroder Strategic Index Model Portfolios

## Q1 2023

## Portfolio changes

In April each year we reassess our Strategic Asset Allocation (SAA). This is a portfolio strategy which involves setting target allocations for various asset classes and rebalancing periodically. Rebalancing involves increasing and reducing exposure to asset classes within a portfolio to reflect any changes in the expected long-term returns from asset classes. In developing the long-term SAA, the Investment Committee is supported by the Schroders Economics and Multi-Asset teams. We make use of a proprietary tool to produce a set of well-diversified portfolios, positioned to perform throughout various market conditions and cycles. Key inputs into the tool are our 30-year return forecasts and the historic volatility and correlations of asset classes.

In our latest return forecast, we revised up the return we expect on cash over the long-term which in turn, led us to revise up expected returns for other asset classes. As a result, we increased exposure to government bonds within the portfolios that hold the asset class, funded through a reduction in equities. This provides an opportunity for these portfolios to deliver their expected level of long-term returns at a lower level of expected risk.

We also adjusted the regional allocation within Equities. We reduced the allocation to UK, Japanese and Emerging Market Equities and increased the allocation to US Equities. We also increased the allocation to the Global Equity asset class.

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# Schroder Sustainable Model Portfolios

## Q1 2023

### Schroder Sustainable Model Portfolios performance

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from the 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.

| | Q1 2023 | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Common Inception (01/11/2020) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Sustainable Portfolio 3** | **1.58** | **1.58** | **-4.12** | **0.76** | **13.29** | **0.46** | **3.77** | **1.82** | **11.73** | **-0.30** | **11.31** | **2.56** | **-0.09** |
| IA Mixed Investment 0-35% Shares | 1.65 | 1.65 | -5.84 | 0.21 | 12.22 | -3.54 | 2.43 | 0.44 | 9.93 | -1.22 | 7.86 | 1.82 | -0.76 |
| **Schroder Sustainable Portfolio 4** | **1.66** | **1.66** | **-4.28** | **1.49** | — | — | — | — | — | — | — | — | **1.14** |
| **Schroder Sustainable Portfolio 5** | **1.71** | **1.71** | **-4.30** | **1.90** | **22.46** | **-0.47** | **5.56** | **3.97** | **15.83** | **-1.29** | **11.93** | **6.29** | **2.06** |
| IA Mixed Investment 20-60% Shares | 1.61 | 1.61 | -5.00 | 1.79 | 20.05 | -7.14 | 2.89 | 0.83 | 13.05 | -2.12 | 8.78 | 3.87 | 2.16 |
| **Schroder Sustainable Portfolio 6** | **1.90** | **1.90** | **-4.05** | **2.49** | — | — | — | — | — | — | — | — | **2.98** |
| **Schroder Sustainable Portfolio 7** | **2.09** | **2.09** | **-3.74** | **3.08** | **32.02** | **-1.91** | **7.12** | **4.68** | **21.04** | **-1.14** | **11.71** | **8.37** | **4.19** |
| IA Mixed Investment 40-85% Shares | 2.25 | 2.25 | -4.62 | 5.38 | 26.47 | -7.73 | 4.36 | 1.63 | 17.48 | -2.72 | 10.71 | 5.83 | 4.90 |
| **Schroder Sustainable Portfolio 8** | **2.37** | **2.37** | **-3.37** | **3.30** | — | — | — | — | — | — | — | — | **5.00** |
| IA Flexible Investment | 1.82 | 1.82 | -3.98 | 5.00 | 29.36 | -8.05 | 3.34 | 2.34 | 19.15 | -3.94 | 11.39 | 4.69 | 5.42 |

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. The common inception return figures are annualised. Portfolio returns may vary from individual investor returns due to timings and cash flows.

# Schroder Sustainable Model Portfolios
## Q1 2023

## Positive contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Lazard Global Thematic Focus | 8.27% | We added the Lazard Global Thematic Fund to our Global Equity allocation in April 2022 as a core holding. The fund follows a thematic approach to investing by focusing on structural change and disruption in global industries and companies. The managers typically invest in companies which are expected to generate above average positive returns based on future potential growth. Over the quarter the fund benefitted from its exposure to sectors which are not as severely impacted by a weaker economy such as technology and communication service companies. Microsoft Corp and Alphabet Inc were the strongest performers in these sectors. |
| Royal London International Government Bond | 2.57% | Government bonds had mixed performance over the quarter but ended in positive return territory. Although most central banks continued with their interest rate hikes, some adjusted their stance which influenced investor sentiment. Bond yields fell in January as investors anticipated a peak in interest rates and again in March when they started to anticipate interest rate cuts. This meant that bond prices were up over each of these periods, and sufficiently so to offset the brief fall in value over February. We believe that bonds are more fairly priced and there will be good return potential going forward. We don't expect the pace or magnitude of interest rate rises to continue for much longer and are more positive about the asset class. |
| Schroders Global Sustainable Value | 6.42% | Another performance contributor within the Global Equity allocation was the Schroders Global Sustainable Value Fund. Over the quarter, positive performance was generated in the communication services and consumer defensive and cyclical sectors. At a country level, the UK was a top contributor and the Marks & Spencer Group was the best performing holding for the fund. The fund focuses on companies that have a positive impact on society by doing less harm to people and the planet relative to other companies within the same industry. Many sustainable-focused equity funds have a bias towards the growth style of investing by selecting companies that are expected to generate above average positive returns based on future potential growth. The Schroder Global Sustainable Value provides diversification to this approach by investing in companies that they identify as undervalued ESG leaders. |

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## Negative contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Neuberger Berman Uncorrelated Strategies | -6.66% | The Neuberger Berman Uncorrelated Strategies Fund seeks diversification of returns through investing in different trading strategies across a variety of time horizons, styles, and asset classes. This approach was challenged over the quarter. Equity markets were resilient and generated positive performance. This meant that some strategies were unable to take advantage of market volatility. In the history of the fund (inception 31 May 2017), there have only been two prior months where all strategies were negative. The managers view this as an unusual outcome and are assessing the performance attributions to adjust their risk levels accordingly. |
| Rockefeller US Equity ESG Improvers | -1.88% | Although the Federal Reserve expressed confidence in the resilience of the US banking system, the collapse of several regional banks sent shockwaves through the market. As a result, holdings in the financial service sector were the largest detractor of performance for the Rockefeller US Equity ESG Improvers Fund. This was followed by negative performance from holdings in the healthcare and energy sectors. Positive returns from technology and communication service companies weren’t sufficient to offset this. The philosophy of the fund is to invest in companies that are improving their ESG practices which the managers believe will create long-term competitive advantages. Over the quarter, the team initiated an engagement with JPMorgan Chase & Co to address their corporate compliance and environmental lending risk. |
| Schroder Global Cities Real Estate | -3.23% | Real Estate continues to be negatively affected by increasing interest rates. Companies in this sector are affected by higher borrowing costs in both their capacity to service existing debt and to expand. Despite this the managers are positive about the outlook for the companies they invest in. The focus of the fund is on companies that own assets in the most environmentally and economically sustainable cities around the world. ESG is integrated into the investment process and is a key factor in determining portfolio inclusion and position sizing. Although the market remains challenging, it provides an opportunity for the managers to invest in companies with a lower valuation due to negative market sentiment rather than a deterioration in the fundamentals that define quality businesses. Over the quarter the fund added a position in Simon Property Group which owns shopping malls in the United States. The company has a high dividend yield that is covered by recurring earnings, a strong balance sheet and scale in a market segment that requires it. |

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# Schroder Sustainable Model Portfolios

## Q1 2023

### Portfolio updates

We are monitoring the economic and market environment to understand the risks and opportunities that may arise. A key concern remains inflation and the resulting consequences. Although interest rates appear to be near their peak, we believe that central banks will be reluctant to cut interest rates until they consider inflation is clearly under control. Given this, we remain cautiously optimistic about our fixed income allocation. We expect the defensive characteristics of government bonds to re-assert themselves as inflationary pressures continue to fall. This offers protection against the potential for a more meaningful growth slowdown. We have also maintained our exposure to higher credit quality assets within our corporate bond allocations.

We believe that higher-quality and defensive businesses will be resilient going forward and our equity allocations have been adjusted to reflect this. Quality companies are less vulnerable to economic downturns and given the expected recession in developed markets we have enhanced this focus within Global Equities.

We expect that market volatility will remain elevated and that our allocation to alternative assets will continue to benefit investors. Our allocation is currently tilted towards risk diversifying assets. These holdings provide a safety net when other asset classes drop in value. A move to return enhancing assets will require a balance between the level of risk taken relative to the return generation potential. We continue to carefully assess these opportunities to maximise the risk and reward.

A long-term perspective is essential to achieving success in investing and we are committed to applying our disciplined approach to asset allocation and risk management. Our portfolios are positioned to navigate the changing market environment and capitalise on opportunities as they arise.

# Schroder Sustainable Model Portfolios

## Q1 2023

## Portfolio changes

In April each year we reassess our Strategic Asset Allocation (SAA). This is a portfolio strategy which involves setting target allocations for various asset classes and rebalancing periodically. Rebalancing involves increasing and reducing exposure to asset classes within a portfolio to reflect any changes in the expected long-term returns from asset classes.

In developing the long-term SAA, the Investment Committee is supported by the Schroders Economics and Multi-Asset teams. We make use of a proprietary tool to produce a set of well-diversified portfolios, positioned to perform throughout various market conditions and cycles. Key inputs into the tool are our 30-year return forecasts and the historic volatility and correlations of asset classes.

In our latest return forecast, we revised up the return we expect on cash over the long-term which in turn, led us to revise up expected returns for other asset classes. As a result, we increased exposure to government bonds within the portfolios that hold the asset class, funded through a reduction in equities. This provides an opportunity for these portfolios to deliver their expected level of long-term returns at a lower level of expected risk.

We also consolidated the equity holdings of the Sustainable portfolios. The allocation will now be represented through Global Equity and Emerging Market Equity. A global approach aligns with the nature of many sustainability challenges, such as climate change and human rights, which require collective action across borders. Many sustainable-focused equity funds have a global remit and this provides us with a wider opportunity set to select best-in-class funds from. Additionally, we will allocate to thematic funds that align with the key Schroder engagement objectives as defined by our Engagement Blueprint. We believe that by actively engaging with fund managers we can play a critical role in influencing positive change.

The portfolios were re-balanced to the updated strategic asset allocation weights and adjustments to fund allocations were made in line with our current market views.

The consolidation of the equity allocations has resulted in the inclusion of the following Global Equity funds at our April 2023 rebalance:

**Sparinvest Ethical Global Value:** The philosophy of the fund is to invest in both undervalued ESG (Environmental, social and Governance) leaders, and improvers with high-quality characteristics. The result is a quality-value style of investing designed to provide a positive return over the long-term. Their conservative and risk-oriented approach to valuing a company offers protection against a permanent loss of capital. The manager believes that by investing in companies that trade below their intrinsic value, the upside return potential is increased. ESG assessment is fully integrated, and sustainability is a key part of the managers' assessment of investment decisions. The team also have strong engagement and voting practices. The fund is co-managed by three experienced managers, David Orr, Mark Feasey and Per Kronborg.

**Montanaro Better World:** The fund invests globally in small and medium sized companies that focus on having a positive impact on the world. Investments are made across six themes: Environmental Protection; Green Economy; Healthcare; Innovative Technology; Nutrition and Well-being. The managers seek to identify profitable and well-managed businesses that operate in markets with attractive structural growth opportunities. The impact philosophy of the fund is based on whether the company benefits stakeholders and contributes to solutions. This is assessed through several key criteria as well as the alignment of revenue to the UN Sustainable Development Goals.

**Ninety One Global Environment:** Sustainable decarbonisation is the process of reducing carbon dioxide emissions in the fight against global warming. The NinetyOne Global Environment Fund invests in companies that are contributing positively to this required energy transition. The fund is managed by Deirdre Cooper and Graeme Baker who both have deep environmental and energy sector knowledge. The team draw on their specialist knowledge and proprietary research to identify the most attractive opportunities throughout the value chain. They focus on three core areas, renewable energy, resource efficiency and electrification. The result is a highly concentrated and differentiated fund with holdings predominantly in the industrials, technology, basic materials and utilities sectors.

# Schroder Blended Portfolios
## Q1 2023

### 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 2023

### Schroder Blended Model Portfolios performance

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from the 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.

| | Q1 2023 | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Common Inception (01/04/2020) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Blended Portfolio 3 F Acc** | **1.50** | **1.50** | **-4.23** | **1.75** | **13.78** | — | — | — | — | — | — | — | **3.50** |
| IA Mixed Investment 0-35% Shares | 1.65 | 1.65 | -5.84 | 0.21 | 12.22 | -3.54 | 2.43 | 0.44 | 9.93 | -1.22 | 7.86 | 1.82 | 1.93 |
| **Schroder Blended Portfolio 4 F Acc** | **1.66** | **1.66** | **-4.04** | **3.11** | **19.84** | — | — | — | — | — | — | — | **5.84** |
| **Schroder Blended Portfolio 5 F Acc** | **1.81** | **1.81** | **-3.80** | **3.89** | **23.69** | — | — | — | — | — | — | — | **7.32** |
| IA Mixed Investment 20-60% Shares | 1.61 | 1.61 | -5.00 | 1.79 | 20.05 | -7.14 | 2.89 | 0.83 | 13.05 | -2.12 | 8.78 | 3.87 | 5.10 |
| **Schroder Blended Portfolio 6 F Acc** | **2.14** | **2.14** | **-3.27** | **5.21** | **28.78** | — | — | — | — | — | — | — | **9.43** |
| **Schroder Blended Portfolio 7 F Acc** | **2.43** | **2.43** | **-2.73** | **7.22** | **35.81** | — | — | — | — | — | — | — | **12.30** |
| IA Mixed Investment 40-85% Shares | 2.25 | 2.25 | -4.62 | 5.38 | 26.47 | -7.73 | 4.36 | 1.63 | 17.48 | -2.72 | 10.71 | 5.83 | 8.33 |
| **Schroder Blended Portfolio 8 F Acc** | **2.87** | **2.87** | **-2.26** | **6.86** | **39.64** | — | — | — | — | — | — | — | **13.41** |
| IA Flexible Investment | 1.82 | 1.82 | -3.98 | 5.00 | 29.36 | -8.05 | 3.34 | 2.34 | 19.15 | -3.94 | 11.39 | 4.69 | 9.26 |

Typically, the performance of the Blended Portfolios can be estimated using a combination of the return from the Active and Strategic Index Portfolios. The return over short periods can however appear out of sync due to a pricing delay. The underlying funds within the Blended Portfolios and the Blended Portfolio itself, price at 12pm. This means that the price of the Blended Portfolio today, reflects the price of the underlying funds from yesterday. This becomes particularly evident in short term return figures when there are sharp price movements at the end of the month or end of the quarter. As an example, a large move at the end of September will be reflected in the price of the Blended Portfolio on the 1st of October and forms part of the October performance, even though it is attributable to September. This phenomenon averages out over longer return periods.

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. The common inception return figures are annualised. Portfolio returns may vary from individual investor returns due to timings and cash flows.

# Schroder Blended Portfolios

## Q1 2023

## Positive contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| JOHCM UK Dynamic | 3.89% | The JO Hambro UK Dynamic Fund, managed by Alex Savvides, was the top performer for the Schroder Blended Portfolios. The fund typically holds mid-sized companies that appear to trade at a lower price relative to the value determined by the manager. The manager makes use of fundamental data such as a company's cash flow, dividends, earnings and assets to determine an intrinsic value for the company. Over the quarter, stock selection in the communication services, industrials and utilities sectors contributed positively. UK corporate earnings were released in February and the majority of the fund's holdings reported better figures than the consensus expected. |
| HSBC FTSE All-Share Index | 2.86% | The UK Equity market continued its strong performance from the last quarter and had positive returns for Q1 2023. Performance was largely driven by sectors which are not as severely impacted by a weaker economy. These include companies in the Industrials and Energy sectors. Financial Services also contributed to performance with a top contribution from HSBC Holdings which had a return of 9.91% over the quarter. This was despite the volatility across banking stocks and the announcement that HSBC would be purchasing Silicon Valley Bank UK. |
| HSBC Global Government Bond Index | 3.06% | Government bonds had mixed performance over the quarter but ended in positive return territory. Although most central banks continued with their interest rate hikes, some adjusted their stance which influenced investor sentiment. Bond yields fell in January as investors anticipated a peak in interest rates and again in March when they started to anticipate interest rate cuts. This meant that bond prices were up over each of these periods, and sufficiently so to offset the brief fall in value over February. We believe that bonds are more fairly priced and there will be good return potential going forward. We don't expect the pace or magnitude of interest rate rises to continue for much longer and are more positive about the asset class. |

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## Negative contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Neuberger Berman Uncorrelated Strategies | -6.66% | The Neuberger Berman Uncorrelated Strategies Fund seeks diversification of returns through investing in different trading strategies across a variety of time horizons, styles, and asset classes. This approach was challenged over the quarter. Equity markets were resilient and generated positive performance. This meant that some strategies were unable to take advantage of market volatility. In the history of the fund (inception 31 May 2017), there have only been two prior months where all strategies were negative. The managers view this as an unusual outcome and are assessing the performance attributions to adjust their risk levels accordingly. |
| Schroders Diversified Alternative Assets | -6.06% | The Schroders Diversified Alternative Asset Fund invests predominantly in investment trusts which are priced based on the net asset value (NAV) of their underlying assets. Investors are currently pessimistic about the prospects of the underlying assets and are unwilling to pay the full NAV for the trusts. This has led to poor returns in the private equity subsector of the fund. Real estate exposure has also faced negative market sentiment despite very strong occupancy, rent collection and inflation linkage. When short-term interest rates and long-term government bond yields go up, the potential return from holding real assets is reduced because the cost of holding them has increased. |
| iShares Environment & Low Carbon Tilt Real Estate Index | -4.36% | Turmoil in the US and European banking sectors had knock on effects in the real estate market. US real estate exposure is approximately two-thirds of the index and saw negative returns over the quarter. This was coupled with worries over higher financing costs and weaker occupancy rates in Europe. As a result, exposure in Germany was a significant detractor from performance despite the smaller holding size in the index. Since central banks began increasing interest rates, negative sentiment has been directed towards the real estate sector. Although this is likely to continue, property still offers a reasonable yield as well as some protection against inflation in sub-sectors where rental increases are tied to inflation. |

# Schroder Blended Portfolios

## Q1 2023

## Portfolio updates

We are monitoring the economic and market environment to understand the risks and opportunities that may arise. A key concern remains inflation and the resulting consequences. Although interest rates appear to be near their peak, we believe that central banks will be reluctant to cut interest rates until they consider inflation is clearly under control. Given this, we remain cautiously optimistic about our fixed income allocation. We expect the defensive characteristics of government bonds to re-assert themselves as inflationary pressures continue to fall. This offers protection against the potential for a more meaningful growth slowdown. We have also maintained our exposure to higher credit quality assets within our corporate bond allocations.

We believe that higher-quality and defensive businesses will be resilient going forward and our equity allocations have been adjusted to reflect this. Quality companies are less vulnerable to economic downturns and given the expected recession in developed markets we have enhanced this focus within Global Equities. We continue to have a tilt towards value-orientated strategies in US Equity. These strategies invest 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. This is balanced by a higher weighting to growth-orientated strategies in Japanese Equities. These strategies invest in companies that are expected to offer future growth prospects that are above the average in their industry or sector. Interest rates in Japan remain low and this is supportive for businesses in the high growth phase.

We expect that market volatility will remain elevated and that our allocation to alternative assets will continue to benefit investors. Our allocation is currently tilted towards risk diversifying assets. These holdings provide a safety net when other asset classes drop in value. A move to return enhancing assets will require a balance between the level of risk taken relative to the return generation potential. We continue to carefully assess these opportunities to maximise the risk and reward.

A long-term perspective is essential to achieving success in investing and we are committed to applying our disciplined approach to asset allocation and risk management. Our portfolios are positioned to navigate the changing market environment and capitalise on opportunities as they arise.

# Schroder Blended Portfolios

## Q1 2023

## Portfolio changes

In April each year we reassess our Strategic Asset Allocation (SAA). This is a portfolio strategy which involves setting target allocations for various asset classes and rebalancing periodically. Rebalancing involves increasing and reducing exposure to asset classes within a portfolio to reflect any changes in the expected long-term returns from asset classes.

In developing the long-term SAA, the Investment Committee is supported by the Schroders Economics and Multi-Asset teams. We make use of a proprietary tool to produce a set of well-diversified portfolios, positioned to perform throughout various market conditions and cycles. Key inputs into the tool are our 30-year return forecasts and the historic volatility and correlations of asset classes.

In our latest return forecast, we revised up the return we expect on cash over the long-term which in turn, led us to revise up expected returns for other asset classes. As a result, we increased exposure to government bonds within the portfolios that hold the asset class, funded through a reduction in equities. This provides an opportunity for these portfolios to deliver their expected level of long-term returns at a lower level of expected risk. We also adjusted the regional allocation within Equities. We reduced the allocation to UK, Japanese and Emerging Market Equities and increased the allocation to US Equities. We also increased the allocation to the Global Equity asset class. This asset class captures thematic opportunities that affect all investors on a global basis and can help to improve diversification.

The portfolios were re-balanced to the updated strategic asset allocation weights and adjustments to fund allocations were made in line with our current market views.

The following fund additions and sales were made at our April 2023 rebalance:

In line with our preference for larger companies with defensive quality characteristics, we have added the Fidelity Global Dividend Fund to the Global Equity allocation. The portfolio manager follows a stock selection process that focuses on companies with consistent cashflow, transparent financial statements and strong governance. Limiting negative returns in challenging market conditions, relative to the global equities, is a key feature for the fund. The earnings generated by companies within the fund have proved to be resilient and we believe this will be valuable as recessionary concerns mount.

Our allocation to the Nikko AM Japan Value Fund has been switched in favour of the Morant Wright Nippon Yield fund. We believe there are attractive opportunities for medium sized companies within the Japanese market and that the manager is well positioned to take advantage of these. The philosophy of the fund is to invest in attractively valued companies, with very strong balance sheets and modest growth prospects. An assessment of corporate governance is a crucial part of the process and the manager looks for management teams who have a track record of making capital allocations in the best interest of shareholders. The overall exposure of the asset class remains tilted towards growth-orientated strategies through the allocation to the JP Morgan Japan Fund.

Our economic cycle analysis indicates that the current split of 60% exposure to active funds and 40% exposure to passive funds remains appropriate. The analysis evaluates the state of the global economy using data on a broad range of components which tracks global activity trends. When the data indicates a negative outlook and a slowdown in the economy, we typically allocate larger portions to active managers and vice versa. Within each asset class, the split between active and passive managers can differ. We allocate to active managers where we believe they will add the most value.

# Schroder Tactical Portfolios

## Q1 2023

## 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 2023

### Schroder Tactical Model Portfolios performance

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from the 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.

| | Q1 2023 | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Common Inception (01/02/2017) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Tactical Portfolio 3 F Acc** | **2.43** | **2.43** | **-5.15** | **1.08** | **10.90** | **-0.91** | **1.48** | **1.05** | — | — | — | — | **1.52** |
| IA Mixed Investment 0-35% Shares | 1.65 | 1.65 | -5.84 | 0.21 | 12.22 | -3.54 | 2.43 | 0.44 | 9.93 | -1.22 | 7.86 | 1.82 | 1.15 |
| | | | | | | | | | | | | | |
| **Schroder Tactical Portfolio 4 F Acc** | **2.48** | **2.48** | **-4.58** | **2.49** | **15.96** | **-4.49** | **1.59** | **1.21** | — | — | — | — | **2.11** |
| **Schroder Tactical Portfolio 5 F Acc** | **2.67** | **2.67** | **-4.06** | **3.50** | **20.30** | **-6.71** | **0.91** | **1.95** | — | — | — | — | **2.67** |
| IA Mixed Investment 20-60% Shares | 1.61 | 1.61 | -5.00 | 1.79 | 20.05 | -7.14 | 2.89 | 0.83 | 13.05 | -2.12 | 8.78 | 3.87 | 2.26 |
| | | | | | | | | | | | | | |
| **Schroder Tactical Portfolio 6 F Acc** | **2.90** | **2.90** | **-3.26** | **5.03** | **24.09** | **-9.06** | **0.52** | **2.30** | — | — | — | — | **3.20** |
| **Schroder Tactical Portfolio 7 F Acc** | **3.19** | **3.19** | **-2.32** | **6.62** | **28.44** | **-11.48** | **-0.21** | **1.96** | — | — | — | — | **3.63** |
| IA Mixed Investment 40-85% Shares | 2.25 | 2.25 | -4.62 | 5.38 | 26.47 | -7.73 | 4.36 | 1.63 | 17.48 | -2.72 | 10.71 | 5.83 | 4.13 |

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. Portfolio returns may vary from individual investor returns due to timings and cash flows.

# Schroder Tactical Portfolios
## Q1 2023

## Positive contributors to portfolio performance

| Asset class | CTR[1] (T5) | Absolute return | Commentary |
|---|---|---|---|
| Global Equities | 1.41% | 4.92% | Global growth was stronger than expected and global equities gained in Q1. |
| Europe ex UK Equities | 0.53% | 14.29% | Eurozone shares notched up strong gains in Q1 despite volatility in the banking sector. Gains for the quarter were led by the information technology, consumer discretionary and communication services sectors. |
| UK Equities | 0.45% | 3.08% | The UK economy proved more resilient than previously feared and UK equities rose during the quarter. |

Note: UK Equities = Schroder UK Multi-Factor Equity Fund, Schroder Prime UK Equity Fund, FTSE 100 Index Future. Global equities = Sustainable Multi-Factor Equity Fund, Schroder Global Equity Fund, Schroder Global Equity Completion Fund. Europe ex UK Equities = Eurostoxx 50 Index Future. [1]Contribution to Return for Schroder Tactical Portfolio 5.

## Negative contributors to portfolio performance

| Asset class | CTR[1] (T5) | Absolute return | Commentary |
|---|---|---|---|
| North American Equities | -0.04%[2] | 0.55% | Despite short-lived market turbulence surrounding the collapse of Silicon Valley Bank (SVB), investor optimism ultimately led US stocks higher over the quarter. The small underweight position held for part of the quarter was therefore marginally detrimental to portfolio returns. |

Note: North American Equities = S&P 500 Index Future. [1]Contribution to Return for Schroder Tactical Portfolio 5.

**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.** For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Absolute return performance, source: Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. 1. CTR performance, source: B-One, portfolio base currency and presented gross of fees; performance is calculated at month-end close of business prices. Portfolio returns may vary from individual investor returns due to timings and cash flows. Portfolio returns may vary from individual investor returns due to timings and cash flows.

# Schroder Tactical Portfolios

## Q1 2023

## Portfolio updates

The Schroder Tactical Portfolios posted positive returns in the first quarter of 2023. Global equities gained, boosted by receding recession worries in developed markets while bond yields fell (meaning prices rose). Against this backdrop, both equity and fixed income holdings contributed positively to returns.

At the start of the year, a peak in rates took some pressure off equity valuations, which led us to upgrade our view on equities from negative to neutral. Having established a preference for Eurozone equities at the expense of the US toward the end of 2022, we maintained this stance over the first half of the period, given the better growth trends outside of the US and lower valuations. This performed well and the overweight eurozone was increased mid-month, this time funded from selling Japanese equities. This was in order to reduce the portfolio's underweight concentration in the US, and to serve as an expression of our positive near-term yen view, which would prove a headwind for Japanese equity valuations.

We saw evidence of a peaking in US labour market indicators, albeit from high levels, but the very strong payroll report led to the pricing of an additional interest rate hike in the spring. An overweight US government bonds position was added to the portfolio at the start of February. Credit conditions suggested that higher interest rates were starting to bite, and the US Federal Reserve continued to be vigilant on inflation. Consequently, we expected economic growth indicators in the US to slowdown and inflation to fall further. This position was closed in March at a profit.

Given the challenges posed to companies in the face of tighter liquidity conditions and risk-off sentiment, a new underweight equities position was implemented at the end of March. This view was expressed through the US and eurozone.

In currencies, the overweight Australian dollar versus pound sterling position was closed towards the end of January. The position had been added in December as we expected a divergence in economic growth, inflation and interest rate paths between the two economies. Australia's economy is smaller, more open and responsive to monetary policy. Consequently, it had arguably reached the point of raising interest rates to their near term peak a lot quicker than other central banks. In the UK, financial markets had set expectations that we believed the Bank of England were unable to meet. Weakening economic data and central bank decisions were likely to continue to weigh on expectations. This view played out and so the position was closed at a profit.

A new position was also established in emerging market currencies versus the currencies of developed market countries with over-extended housing markets which remain challenged by higher rates. We believe those countries with vulnerabilities in their housing markets are most likely to experience a pause in their hiking cycles, whilst emerging markets continue on more aggressive rate hiking paths.

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# Schroder Tactical Portfolios

## Q1 2023

## Outlook

We wrote in our previous report that we expected 2023 to be a year of recession for advanced economies. While we do still expect to see recessions in most developed regions, they are likely to be later and milder than we previously thought. Nonetheless, higher interest rates typically spell trouble for markets, and we expect further hikes in the short term, before they come down again next year. The lags between policy changes and the economic effects are uncertain, but one of the ways in which higher interest rates bite is by exposing recklessness and speculation. This can lead to increased investor caution, lower market valuations and slower economic activity overall. The recent turbulence in the banking sector has been a stark illustration of these dynamics. We expect to see more company-specific issues in this phase of the cycle causing uncertainty over the level of corporate earnings and therefore further weakness in markets. As a result, we favour government bonds over riskier assets.

After what has felt like a constant period of negative economic shocks and forecast downgrades as the world has lurched from one crisis to another, we have become less pessimistic about the outlook for the global economy. During our latest forecast round we have revised up our projection for global GDP growth up to 1.9% in 2023, from 1.3% previously, with a slight pick-up to 2% in 2024. Inflation has peaked decisively, and we have lowered our projections at the global level to 4.7% in 2023, down from 7.6%, and expect further gradual declines towards target in 2024. Better growth means that interest rates in the US and Europe may rise a bit further in the near term. However, we continue to anticipate rate cuts through 2024.

We upgraded our view on equities from negative to neutral at the turn of the year. However, the resilience in growth has meant that equities have held up reasonably well in the short term, but we believe that valuations are still vulnerable, and earnings expectations remain elevated given our expectations of a slowdown. We subsequently downgraded our view to negative in March. Recent events and any reduction in banks lending to companies reinforces this view. With credit spreads (the difference in yield between bonds that mature at the same time but are of different quality) widening, we are also monitoring opportunities to re-enter the asset class but renewed uncertainty over bank funding costs both in the US and Europe keeps us on the side-lines.

All in all, we are positive on government bonds as we expect the US economy to slow and move into recession later this year. We remain cautious on equities as, although valuations have improved, economic growth looks set to slow. Things can change quickly during this phase of the economic cycle and so we believe that an agile approach will be required to adapt our positioning accordingly.

# Schroder Managed Defensive Fund

## Q1 2023

## 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 2023

### Schroder Managed Defensive Model Portfolios performance

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from the 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.

| | Q1 2023 | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Common Inception (01/06/2018) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Managed Defensive F Acc** | **1.14** | **1.14** | **-4.37** | **1.00** | **6.94** | **0.04** | — | — | — | — | — | — | **0.91** |
| UK Cash + 2% | 0.93 | 0.93 | 2.55 | 1.99 | 2.36 | 2.96 | 3.06 | 2.41 | 2.65 | 2.71 | 2.64 | 2.57 | 2.56 |

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. Portfolio returns may vary from individual investor returns due to timings and cash flows.

# Schroder Managed Defensive Fund
## Q1 2023

## Positive contributors to portfolio performance

| Asset class | CTR[1] | Absolute return | Commentary |
|---|---|---|---|
| North American Equities | 0.19% | 5.49% | Despite short-lived market turbulence surrounding the collapse of Silicon Valley Bank (SVB), investor optimism ultimately led US stocks higher over the quarter. |
| Europe ex UK Equities | 0.17% | 13.55% | Eurozone shares notched up strong gains in Q1 despite volatility in the banking sector. Gains for the quarter were led by the information technology, consumer discretionary and communication services sectors. |
| Government Bonds | 0.14% | 2.77% | Having risen mid-quarter, global government bond yields dropped at the end of Q1 in response to the collapse of SVB. |

Note: North American equities = S&P 500 Index Future. Europe ex UK Equities = Euro Stoxx 50 Index Future. Government Bonds = UK Gilt Treasuries, German Bunds, US Treasuries, Australia Government Bonds, Canadian Government Bonds.
[1]Contribution to Return for Schroder Managed Defensive Fund. Returns and contributions are in base currency.

## Negative contributors to portfolio performance

There were no negative contributors for the fund in this quarter.

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# Schroder Managed Defensive Fund

## Q1 2023

### Portfolio updates

The Schroder Managed Defensive Fund posted positive returns in the first quarter of 2023. Global equities gained, boosted by receding recession worries in developed markets while bond yields fell. Against this backdrop, both equity and fixed income holdings contributed positively to returns. Alternative assets marginally detracted.

The Fund's volatility cap mechanism, which was activated in June 2022, remained in place throughout the quarter. The volatility cap acts as a de-risking mechanism which systematically reduces the Fund's invested exposure and raises cash exposure during periods of heightened volatility.

However, as the quarter progressed the Fund was able to reinvest some exposure away from cash and back into equity and fixed income markets.

Where the Fund is invested, it retains its cautious stance. In fixed income, we focused on preparing for a slowdown by adding to government bonds. Government bonds contributed positively to performance over the period, benefiting from our increased exposure in January. This is when we upgraded our view to positive, as we believed that market concerns were likely to shift towards slower future growth given that the pace of price inflation had begun to slow. Positioning focused on US and UK 10-year bonds. We took profits on US government bonds in March.

In equities, the prospect of peaking interest rates has provided some relief to valuations. We reduced our exposure to more growth-sensitive regions such as the UK, given the risk of further financial stress and expectations of a cyclical slowdown. We increased exposure to the US in March where valuations became fairer following the correction earlier in the month.

The Fund maintained a small allocation to commodities. A slowing in developed market growth and a China re-opening led by the service sector point to a steady demand which prevents a more positive view on the asset class.

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# Schroder Managed Defensive Fund

## Q1 2023

## Outlook

We wrote in our previous report that we expected 2023 to be a year of recession for advanced economies. While we do still expect to see recessions in most developed regions, they are likely to be later and milder than we previously thought. Nonetheless, higher interest rates typically spell trouble for markets, and we expect further hikes in the short term, before they come down again next year. The lags between policy changes and the economic effects are uncertain, but one of the ways in which higher interest rates bite is by exposing recklessness and speculation. This can lead to increased investor caution, lower market valuations and slower economic activity overall. The recent turbulence in the banking sector has been a stark illustration of these dynamics. We expect to see more company-specific issues in this phase of the cycle causing uncertainty over the level of corporate earnings and therefore further weakness in markets. As a result, we favour government bonds over riskier assets.

After what has felt like a constant period of negative economic shocks and forecast downgrades as the world has lurched from one crisis to another, we have become less pessimistic about the outlook for the global economy. During our latest forecast round we have revised up our projection for global GDP growth up to 1.9% in 2023, from 1.3% previously, with a slight pick-up to 2% in 2024. Inflation has peaked decisively, and we have lowered our projections at the global level to 4.7% in 2023, down from 7.6%, and expect further gradual declines towards target in 2024. Better growth means that interest rates in the US and Europe may rise a bit further in the near term. However, we continue to anticipate rate cuts through 2024.

We upgraded our view on equities from negative to neutral at the turn of the year. However, the resilience in growth has meant that equities have held up reasonably well in the short term, but we believe that valuations are still vulnerable, and earnings expectations remain elevated given our expectations of a slowdown. We subsequently downgraded our view to negative in March. Recent events and any reduction in banks lending to companies reinforces this view. With credit spreads (the difference in yield between bonds that mature at the same time but are of different quality) widening, we are also monitoring opportunities to re-enter the asset class but renewed uncertainty over bank funding costs both in the US and Europe keeps us on the side-lines.

All in all, we are positive on government bonds as we expect the US economy to slow and move into recession later this year. We remain cautious on equities as, although valuations have improved, economic growth looks set to slow. Things can change quickly during this phase of the economic cycle and so we believe that an agile approach will be required to adapt our positioning accordingly.

# Schroder Income Portfolio

## Q1 2023

## Investment objective

The Fund aims to provide an income of 3% to 5% per year and capital growth 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 50% to 65% of that of global stock markets (represented by the MSCI All Country World index). This is not guaranteed and could change depending on market conditions.

| Volatility target[1] (% p.a. over a five year rolling period) | Comparator benchmark[2] IA Mixed Investment Sector | Income target |
|---|---|---|
| 50% to 65% of MSCI ACWI | 20% to 60% shares average | 3% to 5% per year |

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.

The Schroder Multi-Manager Diversity Income Fund was restructured and renamed the Schroder Income Fund on the 12 November 2021.

# Schroder Income Portfolio

## Q1 2023

## Performance

**Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from the 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**.

| | QTD | YTD | 01/04/2022 - 31/03/2023 | 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 | 01/04/2016 - 31/03/2017 | 01/04/2015 - 31/03/2016 | 01/04/2014 - 31/03/2015 | 01/04/2013 - 31/03/2014 | Since Inception (01/01/2011) - 31/03/2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Schroder Income Portfolio** | **2.09** | **2.09** | **-2.76** | **2.53** | **27.95** | **-12.64** | **3.77** | **-1.44** | **9.16** | **-1.44** | **5.29** | **6.99** | **4.28** |
| IA Mixed Investment 20-60% Shares | 1.61 | 1.61 | -5.00 | 1.79 | 20.05 | -7.14 | 2.89 | 0.83 | 13.05 | -2.12 | 8.78 | 3.87 | 3.83 |

## Yield

The approximate 12-month trailing yield is 2.7%. Please note the actual figure may be revised once final distributions have been declared by the underlying investments.

Source: All performance data, unless otherwise stated Morningstar, bid to bid, net income reinvested, net of fees as at 31 March 2023. Portfolio returns may vary from individual investor returns due to timings and cash flows.

# Schroder Income Portfolio

## Q1 2023

### Portfolio update

We are monitoring the economic and market environment to understand the risks and opportunities that may arise. A key concern remains inflation and the resulting consequences. Although interest rates appear to be near their peak, we believe that central banks will be reluctant to cut interest rates until they consider inflation is clearly under control. Given this, we remain cautiously optimistic about our fixed income allocation. We expect the defensive characteristics of government bonds to re-assert themselves as inflationary pressures continue to fall. This offers protection against the potential for a more meaningful growth slowdown. We have also maintained our exposure to higher credit quality assets within our corporate bond allocations.

We believe that higher-quality and defensive businesses will be resilient going forward and our equity allocations have been adjusted to reflect this. Quality companies are less vulnerable to economic downturns and given the expected recession in developed markets we have enhanced this focus within Global Equities. We continue to have a tilt towards value-orientated strategies in US Equity. These strategies invest 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. This is balanced by a higher weighting to growth-orientated strategies in Japanese Equities. These strategies invest in companies that are expected to offer future growth prospects that are above the average in their industry or sector. Interest rates in Japan remain low and this is supportive for businesses in the high growth phase.

We expect that market volatility will remain elevated and that our allocation to alternative assets will continue to benefit investors. Our allocation is currently tilted towards risk diversifying assets. These holdings provide a safety net when other asset classes drop in value. A move to return enhancing assets will require a balance between the level of risk taken relative to the return generation potential. We continue to carefully assess these opportunities to maximise the risk and reward.

A long-term perspective is essential to achieving success in investing and we are committed to applying our disciplined approach to asset allocation and risk management. Our portfolios are positioned to navigate the changing market environment and capitalise on opportunities as they arise.

**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.** For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Source: Schroder Investment Solutions Quarterly IC Meeting – March 2023.

# Schroder Income Portfolio

## Q1 2023

## Portfolio changes

In April each year we reassess our Strategic Asset Allocation (SAA). This is a portfolio strategy which involves setting target allocations for various asset classes and rebalancing periodically. Rebalancing involves increasing and reducing exposure to asset classes within a portfolio to reflect any changes in the expected long-term returns from asset classes. In developing the long-term SAA, the Investment Committee is supported by the Schroders Economics and Multi-Asset teams. We make use of a proprietary tool to produce a set of well-diversified portfolios, positioned to perform throughout various market conditions and cycles. Key inputs into the tool are our 30-year return forecasts and the historic volatility and correlations of asset classes.

In our latest return forecast, we revised up the return we expect on cash over the long-term which in turn, led us to revise up expected returns for other asset classes. As a result, we increased exposure to government bonds within the portfolios that hold the asset class, funded through a reduction in equities. This provides an opportunity for these portfolios to deliver their expected level of long-term returns at a lower level of expected risk.

We also adjusted the regional allocation within Equities. We reduced the allocation to UK, Japanese and Emerging Market Equities and increased the allocation to US Equities. We also increased the allocation to the Global Equity asset class. This asset class captures thematic opportunities that affect all investors on a global basis and can help to improve diversification.

The portfolios were re-balanced to the updated strategic asset allocation weights and adjustments to fund allocations were made in line with our current market views.

The following fund additions and sales were made at our April 2023 rebalance:

In line with our preference for larger companies with defensive quality characteristics, we have added the Fidelity Global Dividend Fund to the Global Equity allocation. The portfolio manager follows a stock selection process that focuses on companies with consistent cashflow, transparent financial statements and strong governance. Limiting negative returns in challenging market conditions, relative to the global equities, is a key feature for the fund. The earnings generated by companies within the fund have proved to be resilient and we believe this will be valuable as recessionary concerns mount.

We have also restructured our holdings in the alternative asset class. Historically low yields meant that a higher allocation to infrastructure and equity was required to meet the income target of the fund. Given the increase in interest rates by major central banks across the world, fixed income assets have largely repriced to reflect a higher yield. As a result, we have sold the Trojan Ethical, Ninety One Diversified Income and VT Gravis UK Infrastructure Funds. This has resulted in the inclusion of the following Alternative funds:

**Vontobel TwentyFour Absolute Return Credit:** The fund aims to provide steady and repeatable returns with low volatility throughout the business cycle. The managers focus on short-dated investment grade bonds which they believe offer the best source of risk-adjusted returns within fixed income. Investment grade bonds are the highest quality bonds as determined by a credit rating agency. A proprietary tool is used to analyse the investment universe by providing a quantitative overlay to the qualitative factors assessed in the stock selection process. Currently, the team is aiming to generate income through high-quality bonds which are less sensitive to recessions, rather than reaching for capital gains.

**Neuberger Berman Uncorrelated Strategies:** The fund focuses on strategies with low correlation to equities and bonds and aims to generate returns even in difficult markets for traditional asset classes. The manager makes use of a wide set of alternative strategies with diversifying styles, approaches and focus. The adaptive nature of the investment process is advantageous in today's dynamic market environment. The high level of skill and experience of the team is also reflected in their understanding of the associated risks of each strategy.

# Schroder Income Portfolio

## Q1 2023

## Positive contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Lazard Global Thematic Focus | 8.27% | We added the Lazard Global Thematic Fund to our Global Equity allocation in April 2022 as a core holding. The fund follows a thematic approach to investing by focusing on structural change and disruption in global industries and companies. The managers typically invest in companies which are expected to generate above average positive returns based on future potential growth. Over the quarter the fund benefitted from its exposure to sectors which are not as severely impacted by a weaker economy such as technology and communication service companies. Microsoft Corp and Alphabet Inc were the strongest performers in these sectors. |
| City of London | 2.28% | Another top contributor was the City of London Investment Trust. This was on the back of strong performance from UK Equities in the last quarter of 2022. For Q1 2023, companies in the industrials, utilities and communication services sectors contributed positively. There are tentative signs that the economy is recovering and the manager believes that UK shares remain attractively priced when compared to other regions. This provides an opportunity to gain exposure to the many world-class businesses that reside in the UK. Exposure to large companies also continues to provide investors with reliable dividends. |
| BlackRock Continental European Income | 5.87% | For a second consecutive quarter, the BlackRock Continental European Fund has been a top contributor for the Income Portfolio. At a country level, France, Denmark and Spain all had positive returns. A quarter of the fund is represented by holdings in the industrial sector and this was the largest contributor to performance. This contribution offset the negative returns in financial services amid volatility in the banking sector. The fund is relatively evenly split across sectors which perform differently in economic environments and this diversification continues to support returns over the long term. Over the three years ending March 2023, the fund has achieved an annual return of 13.9%. |

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# Schroder Income Portfolio

## Q1 2023

## Negative contributors to portfolio performance

| Fund name | Fund performance | Commentary |
|---|---|---|
| Schroders Diversified Alternative Assets | -6.06% | The Schroders Diversified Alternative Asset Fund invests predominantly in investment trusts which are priced based on the net asset value (NAV) of their underlying assets. Investors are currently pessimistic about the prospects of the underlying assets and are unwilling to pay the full NAV for the trusts. This has led to poor returns in the private equity subsector of the fund. Real estate exposure has also faced negative market sentiment despite very strong occupancy, rent collection and inflation linkage. When short-term interest rates and long-term government bond yields go up, the potential return from holding real assets is reduced because the cost of holding them has increased. |
| iShares Environment & Low Carbon Tilt Real Estate Index | -4.36% | Turmoil in the US and European banking sectors had knock on effects in the real estate market. US real estate exposure is approximately two-thirds of the index and saw negative returns over the quarter. This was coupled with worries over higher financing costs and weaker occupancy rates in Europe. As a result, exposure in Germany was a significant detractor from performance despite the smaller holding size in the index. Since central banks began increasing interest rates, negative sentiment has been directed towards the real estate sector. Although this is likely to continue, property still offers a reasonable yield as well as some protection against inflation in sub-sectors where rental increases are tied to inflation. |
| Gravis UK Infrastructure Income | -4.08% | The Gravis UK Infrastructure Income Fund invests in infrastructure assets which provide the services and facilities necessary for society and economies to function. This typically involves long-term projects supported by demand for UK infrastructure, where cash flows are not dependent on cyclical economic trends. The current negative market sentiment, along with rising interest rates has contributed to the themes driving the negative performance of real assets. To mitigate this, the strategy has followed a conservative approach. Their focus is on commissioned infrastructure assets operating in environments with high barriers to entry, protection in the form of regulated or government-backed frameworks, and by limiting sensitivity to cyclical demand patterns. |

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# 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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