

Are Diversified Growth funds relevant in today's environment?

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Are Diversified Growth Funds (DGF) still relevant

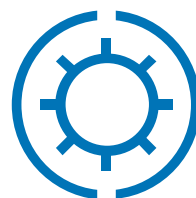
Discussion points



What have they delivered?



The changing market environment



Increasing focus on sustainability



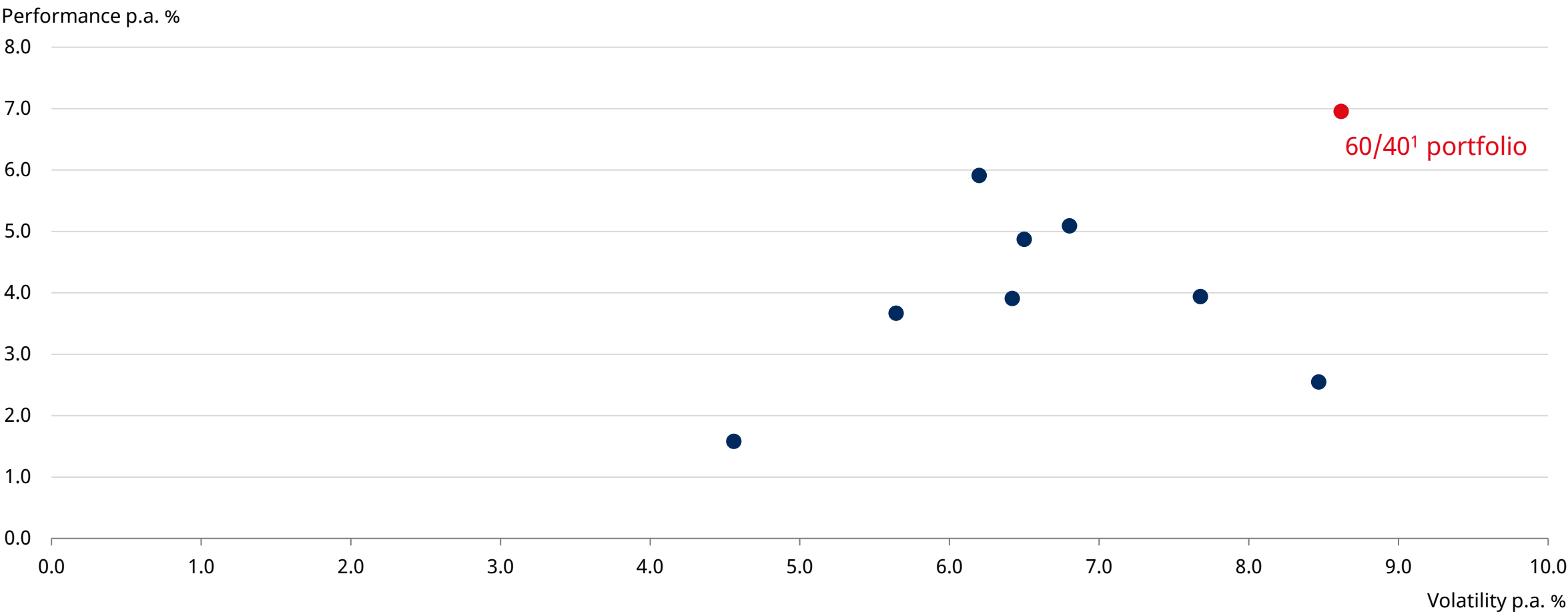
Access to diversifying assets including private markets



Bringing it all together – what can we expect?

How have diversified growth funds fared?

Ten-year risk and return



Past performance is not a guide to future performance and may not be repeated. The value from investments may go up as well as down and the investors may not get back the amount originally invested. Source: Refinitiv as at 31 May 2022. Performance calculated from daily published prices on Refinitiv DataStream.. The peer group has been selected and deemed to be representative by Schroders. ¹60/40 portfolio is 60% MSCI ACWI/40% FTSE world government bond index. Volatility is calculated as the standard deviation of weekly returns.

But things are changing

Last 10 years, next 10 years: ‘What got us here isn’t going to get us there...’

Economic forces

Subdued DM productivity growth	Inflationary pressure
Tighter monetary policy	Lower GDP growth

Disruptive forces

Environmental concerns increasingly influential	Politics responds to stagnating median real incomes
Govt finances under pressure limits room for manoeuvre	Technology challenges labour market

Shift from historic economic tailwinds to **headwinds** with **crosswinds** creating further challenges and opportunities

Investment implications



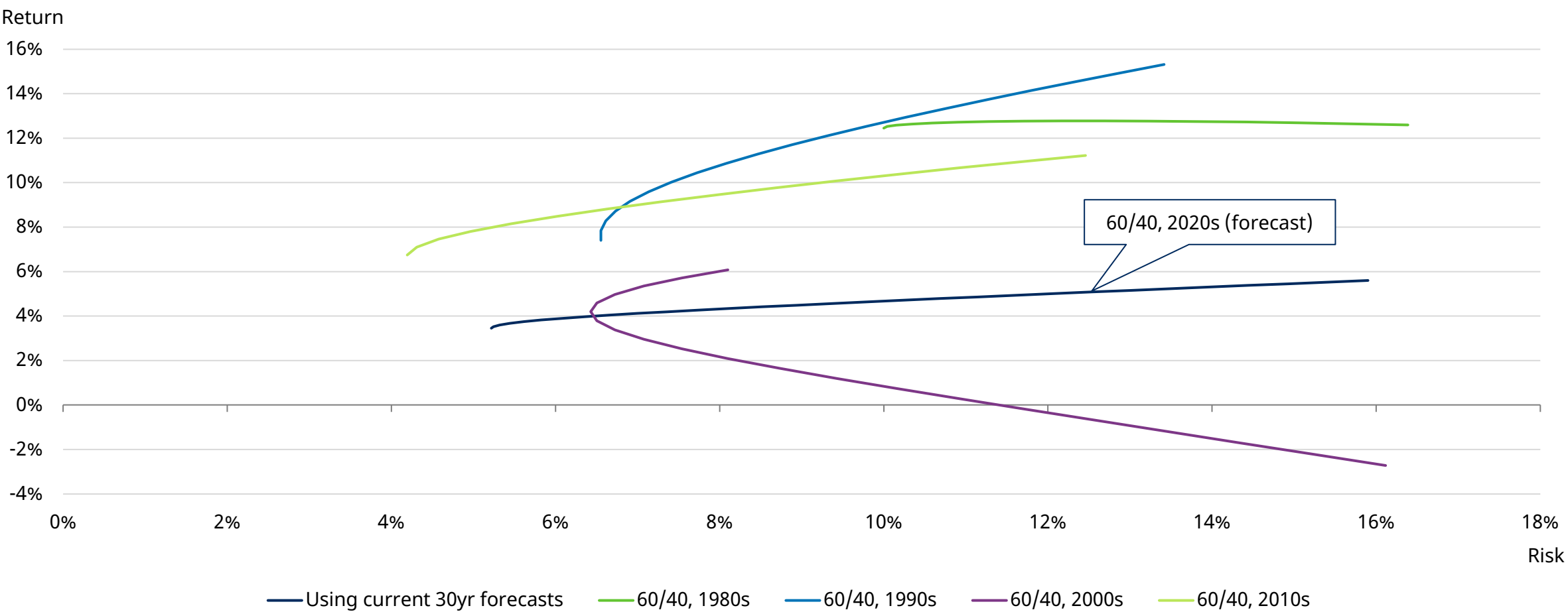
Index returns likely to disappoint	Disruptive forces herald a regime change	All sources of diversification must be considered	How returns are achieved matters
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Source: Schroders.

Returns in the future are likely to be subdued

Next decade's efficient frontier is lower and flatter



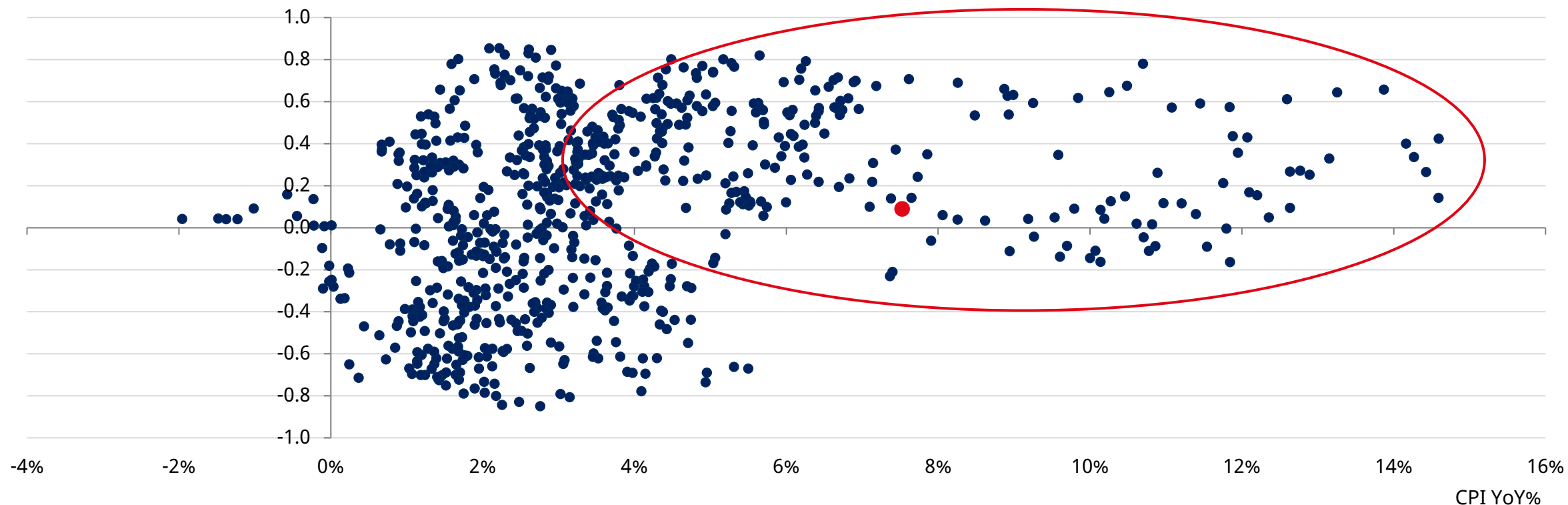
Source: Schroders, March 2022.

Regime change

Equity/bond correlations are higher today driven by higher inflation

Bond equity correlation vs realised inflation (1961–2022)

US equities vs. US10y correlation



Source: Schrodgers, DataStream. US equities represented by the S&P 500 Index. Data updated up to February 2022.

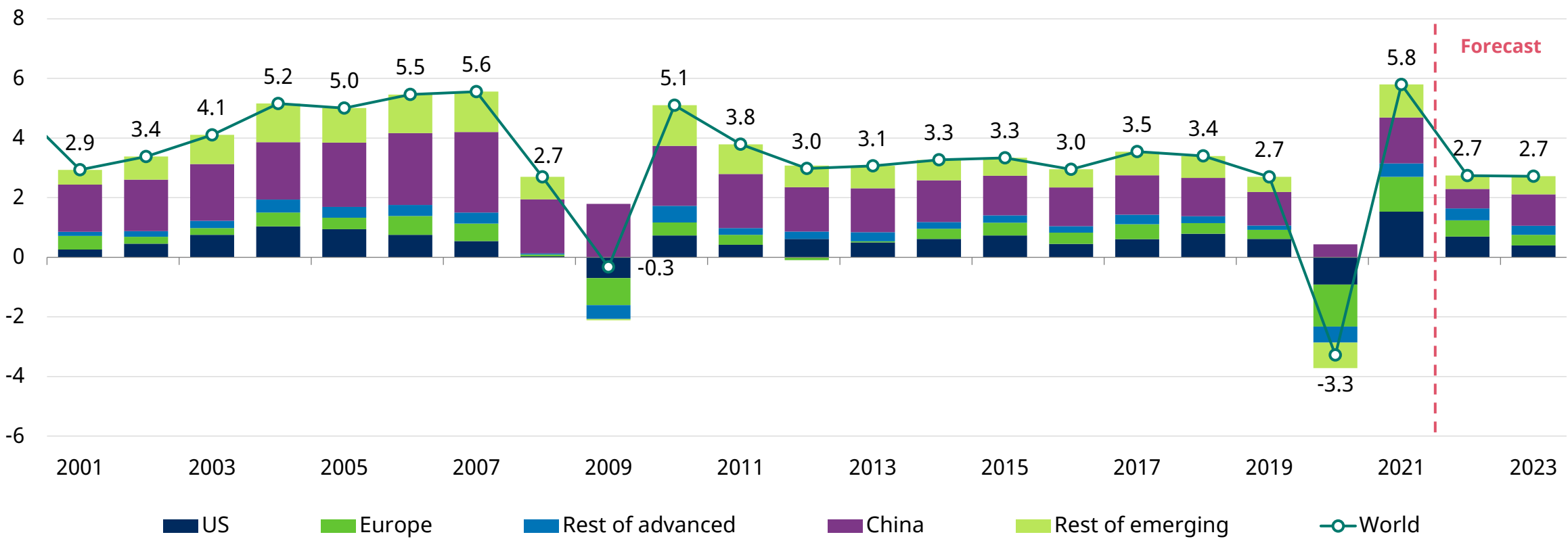
Outlook

The environment investors must navigate

High inflation set to challenge global growth

Post-covid rebound hampered by bottlenecks and soaring commodity prices

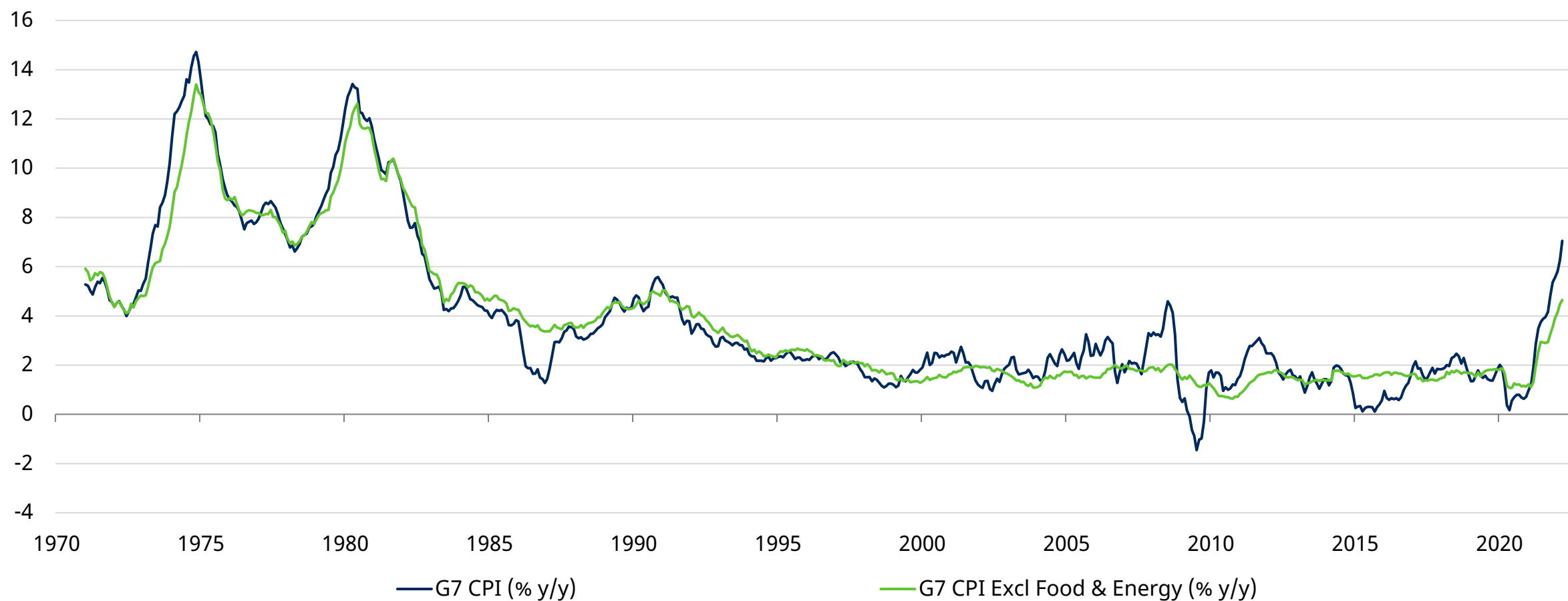
Contributions to World GDP growth (y/y)



Source: Schroders Economics Group, 26 May 2022. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Forecast may not be realized.

Global inflation has surged to multi-decade highs

Core inflation has risen sharply

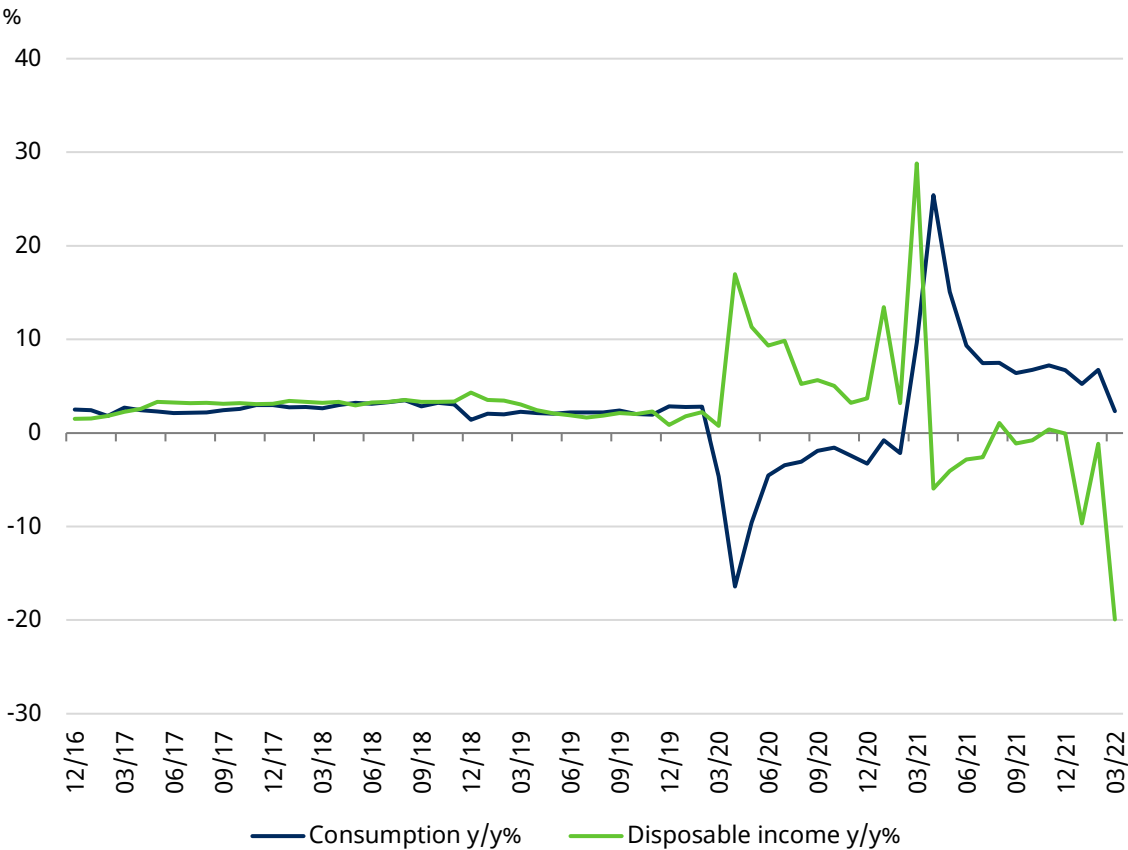


Source: Schroders Economics Group 26 May 2022. Please note the forecast warning at the back of the document.

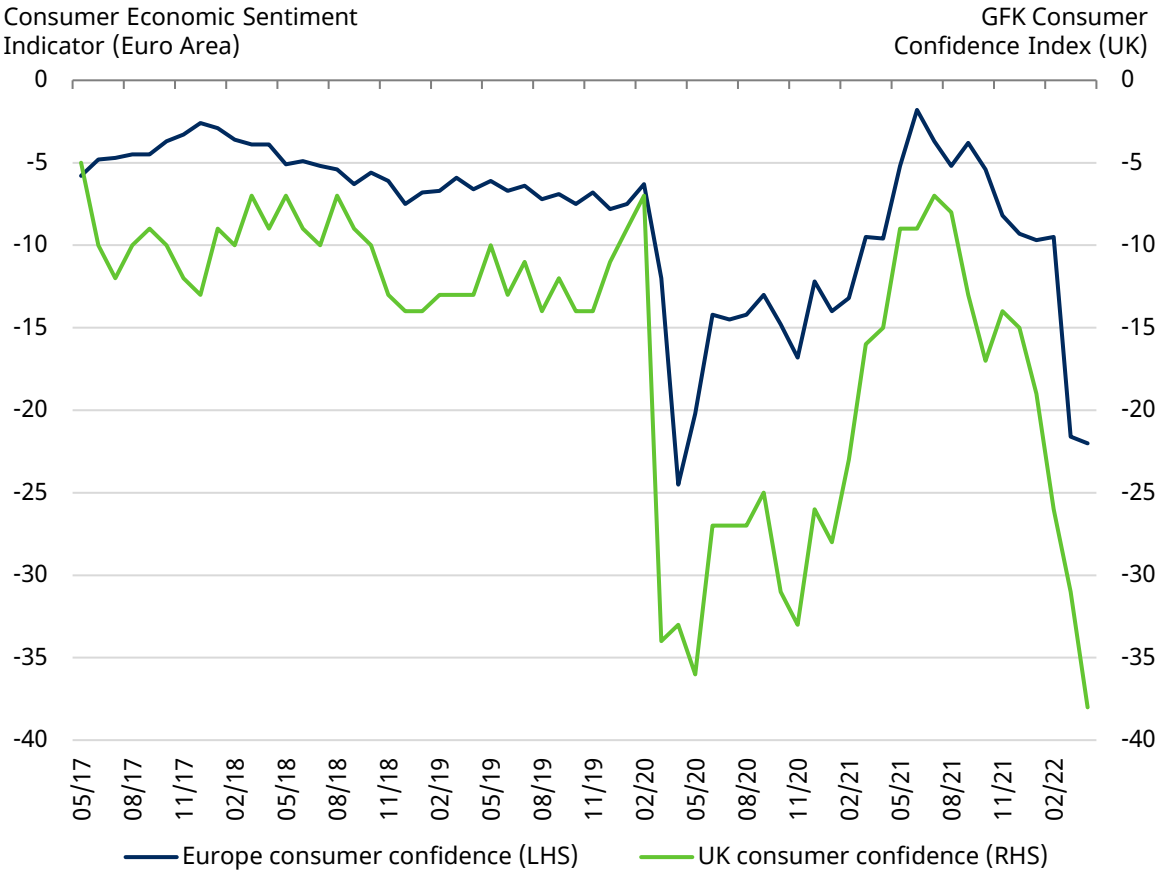
Can the consumer withstand this level of inflation?

Prolonged inflation will threaten spending, despite elevated savings and higher wages

Disposable income is being squeezed



Consumer confidence has sharply declined

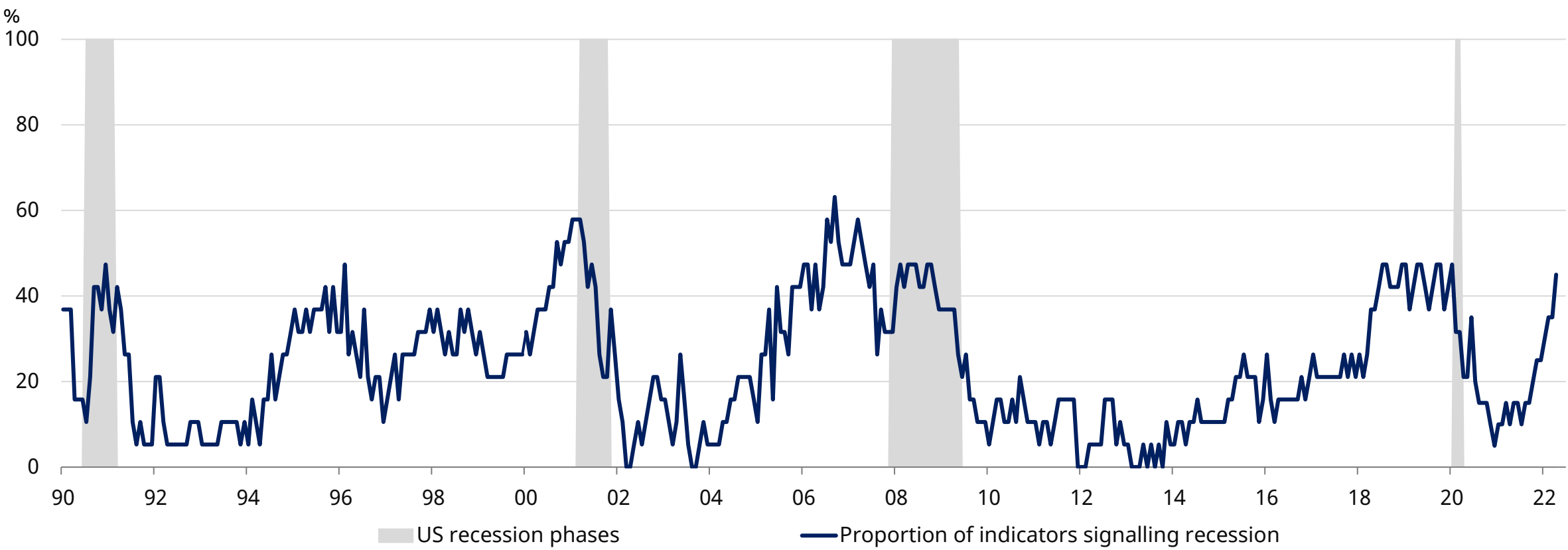


Source: Schroders, Refinitiv, 30 April 2022. LHS: Consumption represented by US Personal Consumption Expenditure; disposal income represented by US Real Personal Disposable Income (RPDI). For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

US recession risks are rising

Inflationary indicators signal US economy is overheating

Schroders Recession Dashboard

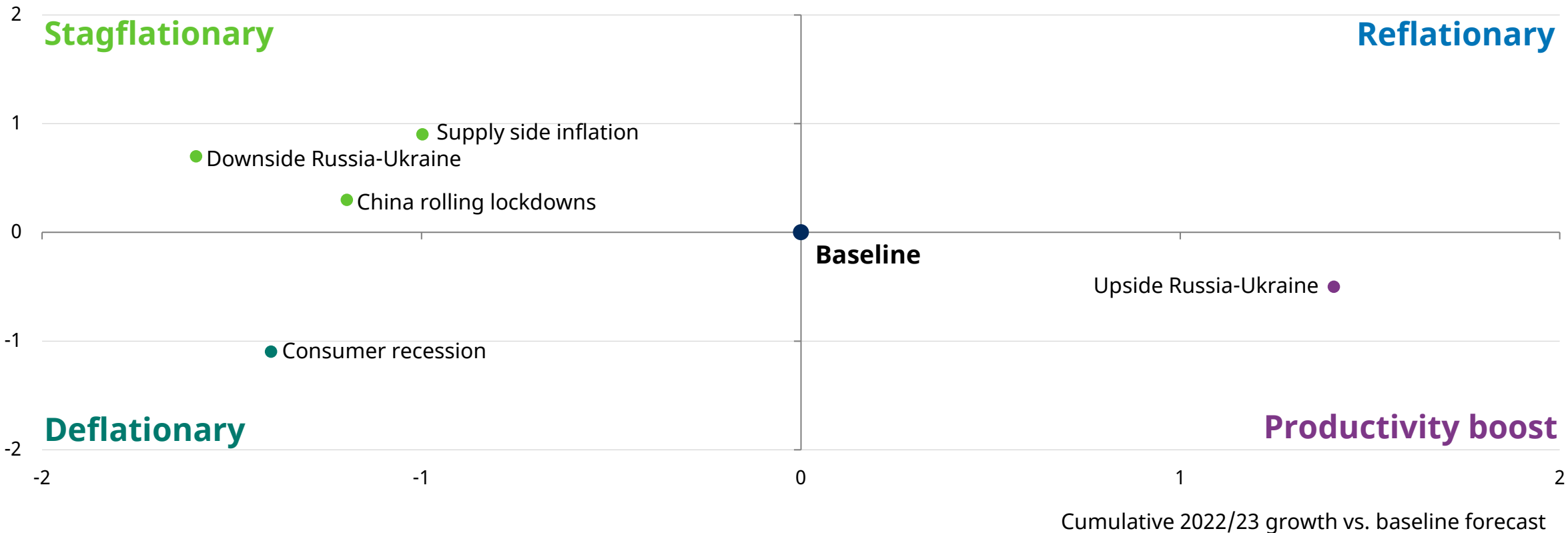


Source: Schroders, Schroders Recession Dashboard, 29 April 2022. The indicators on our internal dashboard are divided into three categories; inflationary, monetary, and near-term macro and financial markets. Nine out of the twenty (45%) of the indicators are flagging recession risks at the end of April. Two-thirds of the inflationary measures, which are early recession warning barometers, are signalling recession risks. In the coming months, the monetary variables are the ones to watch as the Fed tightens monetary policy. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Risks skewed to stagflation

Our latest dynamic scenario analysis

Cumulative 2022/23 inflation vs. baseline forecast



Source: Schroder Economics Group, 26 May 2022. Group baseline forecast: 2022: 2.7% growth, 6.4% CPI inflation. The forecasts included should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors.

Current asset class views



Equities



Rates



Credit



US Dollar



EM/Commodities

Source: Schroders, May 2022. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Asset allocation can add significant value

Diversified and dynamic

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD 2022	
Govts 10%	Global HY 60%	Commods 16%	Property 8%	Global HY 18%	Equities 26%	Property 19%	Property 7%	Global HY 15%	Equities 19%	EMD 5.0%	Equities 28%	Equities 14%	Property 37%	Commods 31%	<div>Best Performing asset class</div> <div>↑</div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div>Worse Performing asset class</div>
EMD 10%	Equities 30%	Global HY 15%	Sterling IG 7%	Equities 16%	ILS 11%	Sterling IG 12%	ILS 4%	Commods 11%	EMD 10%	ILS 3%	Property 25%	Hedge Funds 10%	Commods 27%	ILS 1%	
Cash 5%	Commods 18%	Property 14%	EMD 6%	EMD 14%	Property 10%	Equities 9%	EMD 3%	EMD 10%	Global HY 8%	Cash 1%	EMD 13%	Sterling IG 8%	Equities 25%	Cash 0%	
ILS 2%	ILS 13%	ILS 11%	Govts 6%	Sterling IG 13%	Hedge Funds 9%	EMD 8%	Sterling IG 1%	Sterling IG 10%	Govts 7%	Property 0%	Sterling IG 9%	EMD 8%	Hedge Funds 6%	Property -2%	
Sterling IG -3%	Hedge Funds 11%	Equities 11%	ILS 3%	ILS 10%	Global HY 7%	ILS 6%	Cash 1%	Equities 9%	Hedge Funds 7%	Sterling IG -2%	Hedge Funds 8%	ILS 6%	ILS 5%	Hedge Funds -4%	
Hedge Funds -21%	Sterling IG 11%	EMD 9%	Global HY 3%	Hedge Funds 4%	EMD 0%	Hedge Funds 3%	Equities 0%	Property 8%	Sterling IG 4%	Govts -2%	Commods 8%	Govts 2%	Cash 1%	EMD -5%	
Property -22%	EMD 6%	Sterling IG 8%	Cash 1%	Property 2%	Sterling IG 0%	Global HY 2%	Govts -2%	ILS 6%	Commods 2%	Hedge Funds -2%	Global HY 7%	Global HY 2%	EMD 0%	Govts -8%	
Global HY -27%	Govts 2%	Govts 5%	Hedge Funds -5%	Govts 1%	Cash 1%	Cash 1%	Global HY -2%	Hedge Funds 1%	Cash 1%	Equities -7%	ILS 4%	Cash 1%	Global HY -3%	Sterling IG -9%	
Commods -35%	Property 2%	Hedge Funds 5%	Equities -6%	Cash 1%	Govts -4%	Govts -1%	Hedge Funds -2%	Cash 1%	ILS 0%	Global HY -9%	Govts 4%	Commods -3%	Sterling IG -3%	Global HY -10%	
Equities -39%	Cash 1%	Cash 1%	Commods -13%	Commods -1%	Commods -9%	Commods -17%	Commods -24%	Govts 0%	Property -2%	Commods -11%	Cash 1%	Property -16%	Govts -4%	Equities -11%	

Past performance is not a guide to future performance and may not be repeated.

Source: Schroders, DataStream as of 29 April 2022. Equity: MSCI AC World Total Return Index, Property: UK IPD Index, Hedge Funds: HFRI Funds of Funds Composite Total Return Index, Cash: 3-month Sterling LIBOR, Global HY: BofA Merrill Lynch Global High Yield TR Index; Sterling IG: IBoxx UK Sterling Non-Gilts All Maturities; Govts: Barclays Global Treasury Index; Property: UK IPD Index; Commods: Bloomberg Commodity Index; EMD: JPM GBI-EM Composite Index; ILS: Swiss Re Cat Bond Index. All show total return either in local currency or currency of denomination.

Stagflationary risks

Commodities and REITs have historically outperformed in stagflationary environments

Average real (inflation-adjusted) YoY total return since 1973, %

Business cycle phase	US equities	US Treasuries	US T-Bills	Commodities	REITs	TIPS ¹
Goldilocks	16.1	4.3	0.8	0.4	18.1	3.7
Disinflation	8.4	8.1	1.7	-5.6	3.5	3.2
Reflation	14.6	-2.0	0.0	21.0	14.0	1.8
Stagflation	-1.5	0.6	0.4	15.0	6.5	4.3

Source: Schroders, Datastream, Refinitiv. ¹Data from March 1973 to October 2021, except TIPS from March 1997. Notes: growth is YoY % chg in US Conference Board Leading Economic Index and inflation is YoY % chg US core CPI. Goldilocks = accelerating growth and falling inflation; disinflation = decelerating growth and inflation; reflation = accelerating growth and inflation; stagflation = decelerating growth and inflation above 10-year average. Past performance is not a guide to future performance and may not be repeated.



Access to Private Assets

Private Equity

Private Credit

Real Estate

Infrastructure

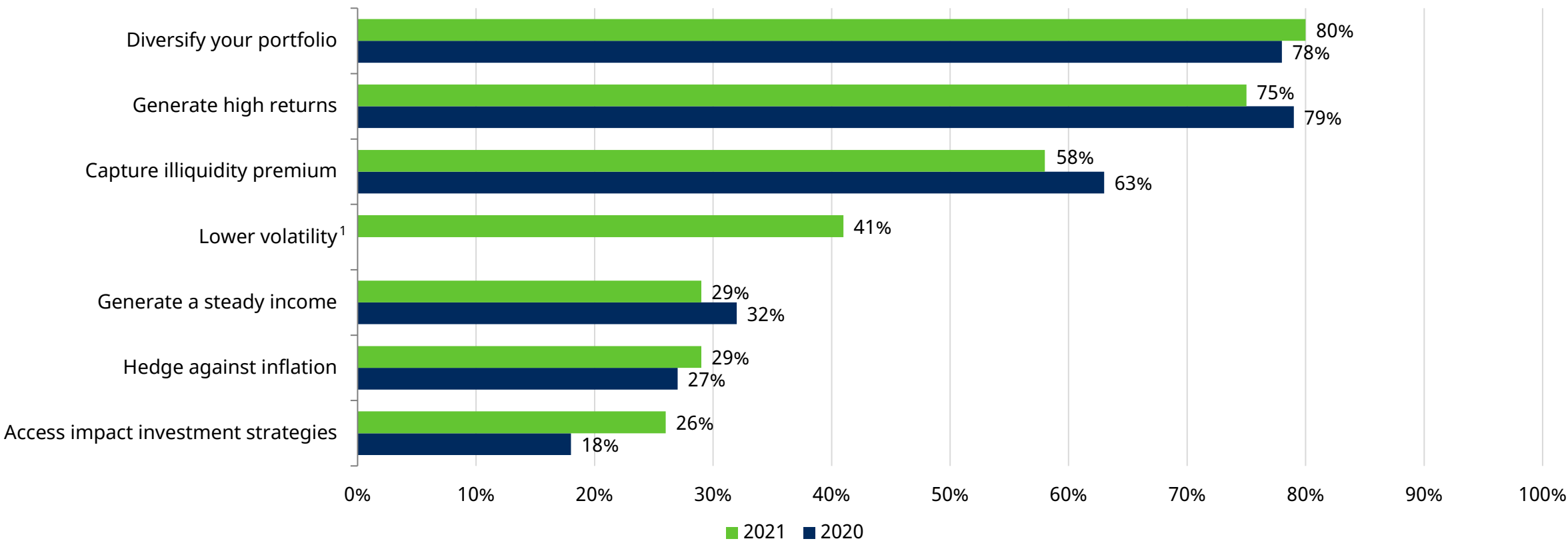
Insurance-linked

Impact strategies

9 June 2022

Why do investors want private assets?

Benefits of additional premia and diversification

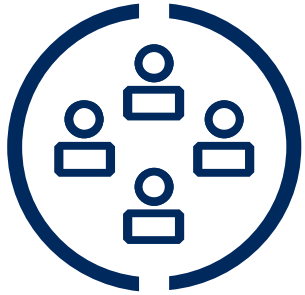


But be mindful of complexity, illiquidity and access

Source: Schroders Institutional Investor Survey 2021. The respondents represents a spectrum of institutions, including corporate and public pension plans, insurance companies, official institutions, private banks, endowments and foundations, collectively responsible for \$26.8tn in assets. Research carried out during February and March 2021. On a scale of 1-5 (1 being strongly disagree and 5 strongly agree). % Agree (4+5). ¹This question was not asked in 2020.

Combining public and private assets in a single portfolio

What are the advantages?



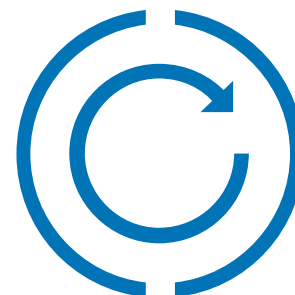
Governance

Having a single, well-resourced source of governance, with the ability to monitor exposures and liquidity at the total portfolio level



Co-ordinating cashflows

Managing cash calls, ensuring committed capital is managed efficiently to prevent cash drag, and streamlining asset rebalancing



Holistic management

Ongoing analysis of public and private building blocks. Sizing allocations and maintaining optimal blend of exposures across sectors, regions, ESG factors



Measurement

Measuring and reporting risk, return and impact objectives at the total portfolio level: consistent, high-quality and accessible data sources

Why Does Sustainable Investing Matter?



The Realities of Sustainable Investing

Done right, Sustainability leads to more meaningful investing.

Deeper investment insight

A proprietary approach helps to understand how long-term ESG trends impact investments today. **Sustainability and impact criteria reflect targeted and measurable outcomes**, providing transparency and meaningful reporting.



Better stewardship

Active owners influence companies, mitigate risks that can't be eliminated and to protect long-term value. **Demonstration of engagement and voting alignment** with sustainable investment policy and strategy through shareholder advocacy.



Transparent, relatable insights educate on the investment process

Stakeholder and thematic analysis provide a clear understanding of risk, opportunity, and impact across industry value chains, driven by policy, climate, and social pressures.



Increasingly Important

Regulatory momentum, accelerating change, growing global challenges and societal pressures, and end investor interest and demand creates an **opportunity to reshape client engagement and value**.



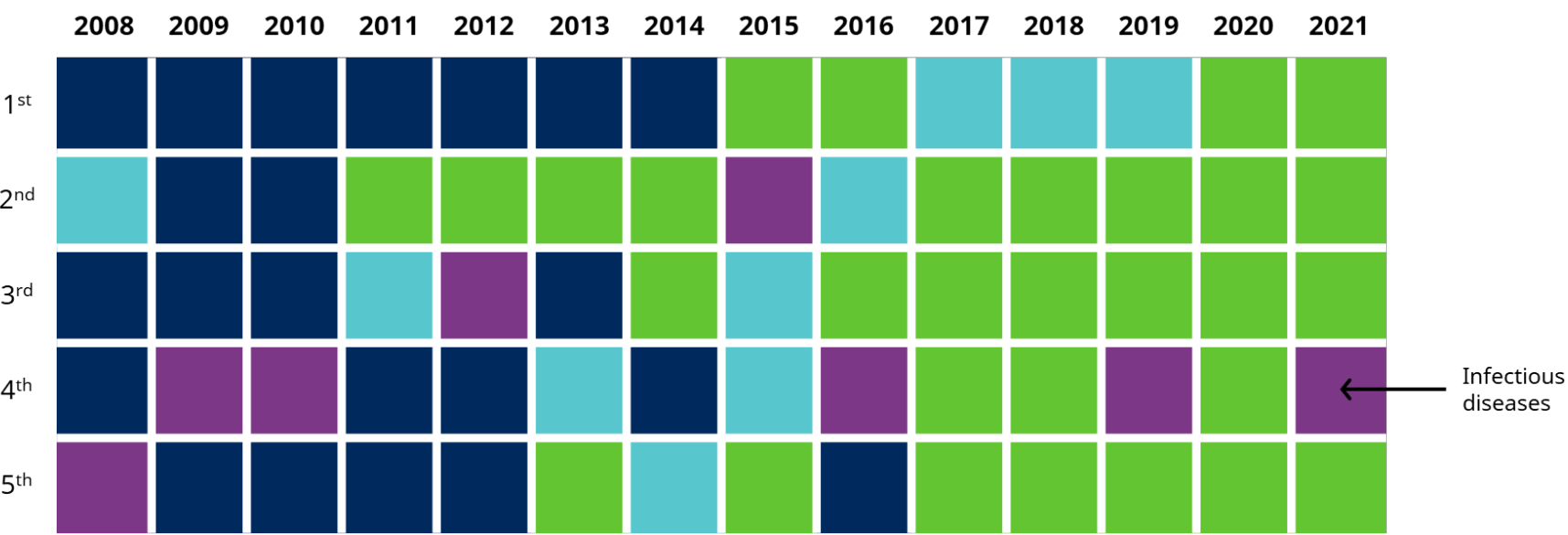
Source: Schroders. Past performance is no guarantee of future results and may not be repeated.

How has Sustainability becoming important?

World Economic Forum's top five global risks in terms of impact

Historical Risks

Over the past 10+



Top 10 Global Risks by Severity

Over the next 10 years



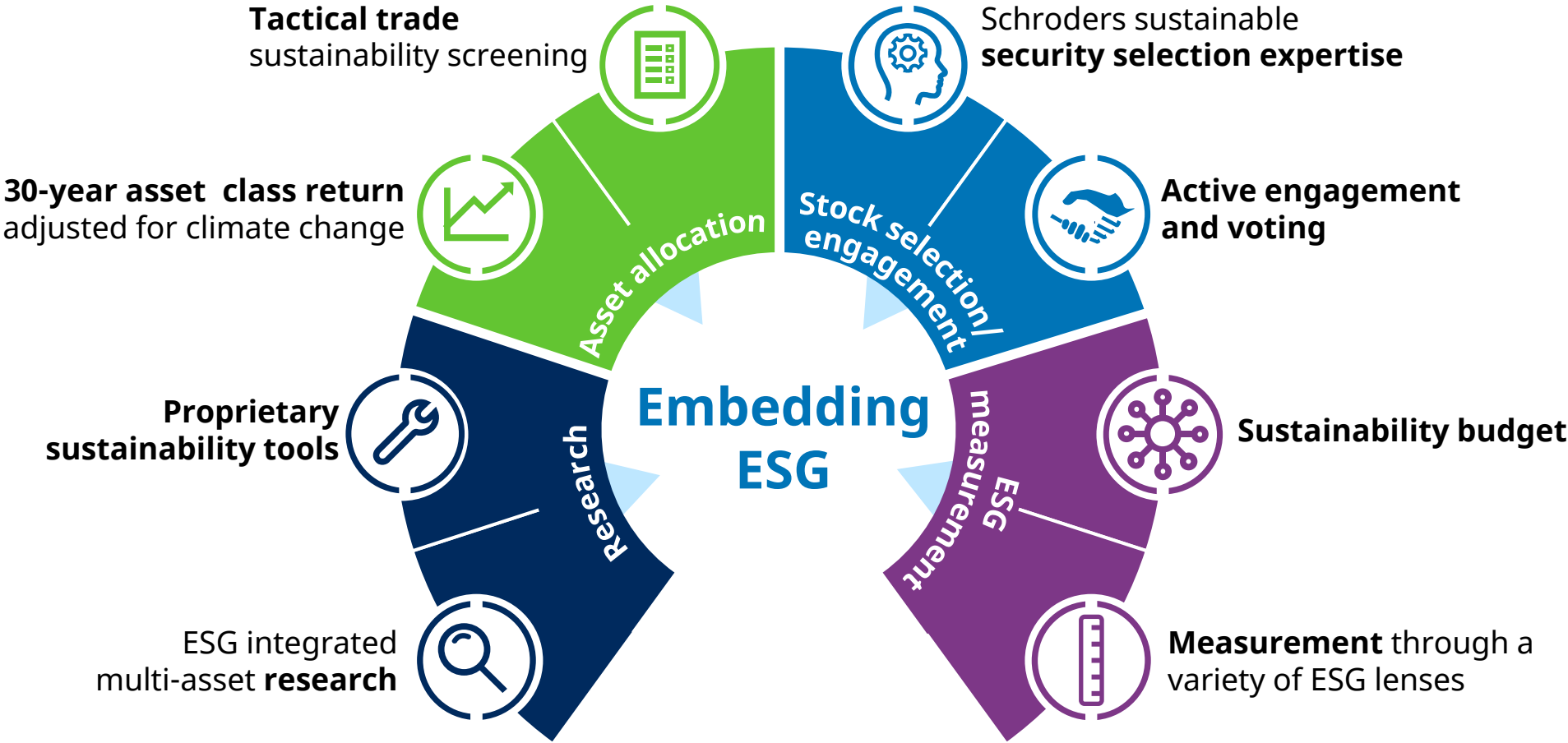
Top Short-term Global Risk

Over the next 0-2 years



Source: World Economic Forum, January 2021, World Economic Forum Global Risks Report 2022.

Integrating ESG into our multi-asset approach



Source: Schroders.

How to approach measurement and engagement

Our proprietary tools

Positive impact on society

Would society write a company a cheque
or send them a bill?



Climate change
costs society \$2.1tn



Medicine provision¹
benefits society \$2.3tn

Impact measurement
*SustainEx*²



Positive impact on corporate behaviour

Do stakeholder relationships create
opportunities or risks?



Stakeholder relationships
*CONTEXT*³



Source: Schroders, ¹GlaxoSmithKline.com. ²Schroders uses SustainEx™ to estimate the net impact of an investment portfolio having regard to certain sustainability measures in comparison to a product's benchmark where relevant. It does this using third party data as well as Schroders own estimates and assumptions and the outcome may differ from other sustainability tools and measures. ³CONTEXT is a proprietary tool that considers the sustainability of a company's business model having regard to certain measures and uses both third party data and our own estimates and assumptions and is not an industry standard measure.

Sustainability budget

Manages the trade-off between sustainability and diversification

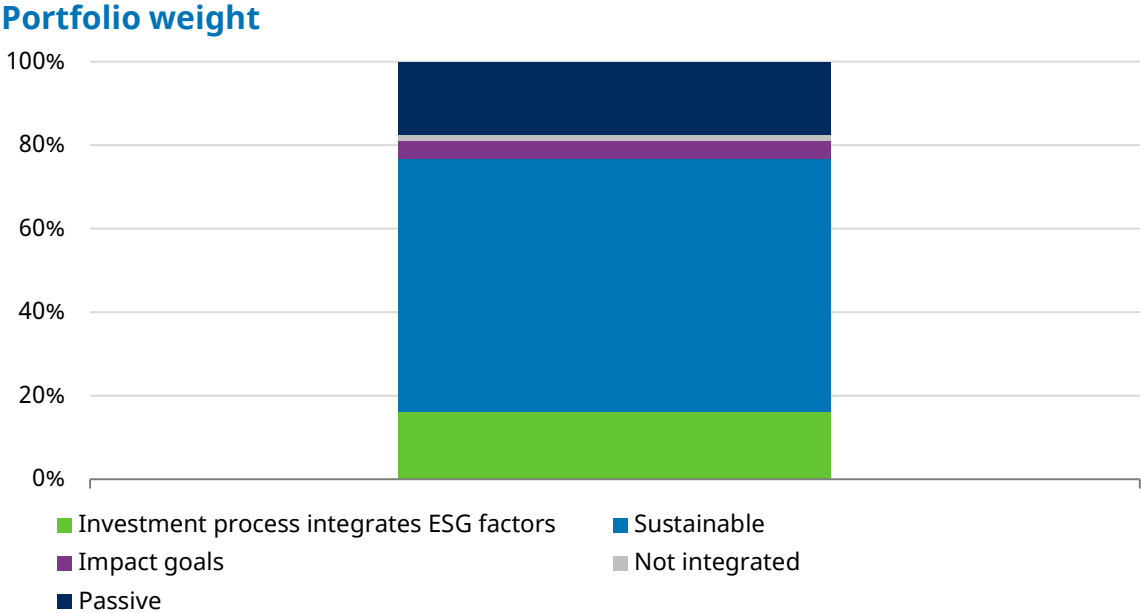
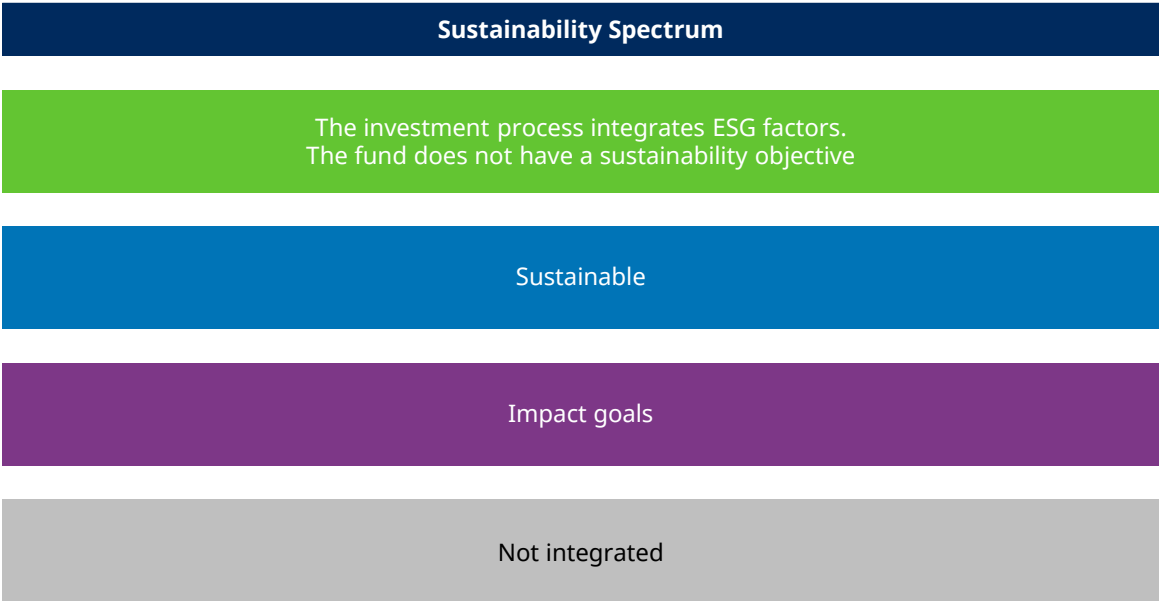
The ‘Sustainability Budget’ measures the amount of capital managed across the sustainability spectrum. Holdings are classified into three categories:



Strategy investment process integrates ESG factors.
The strategy does not have a sustainability objective.

Sustainable strategy which aims to achieve their investment objective alongside delivering a better impact on society compared to a relevant benchmark.

Impact goals strategy which has a dual aim of delivering risk-adjusted returns whilst seeking to contribute positively to the solutions needed to solve societal and environmental challenges.

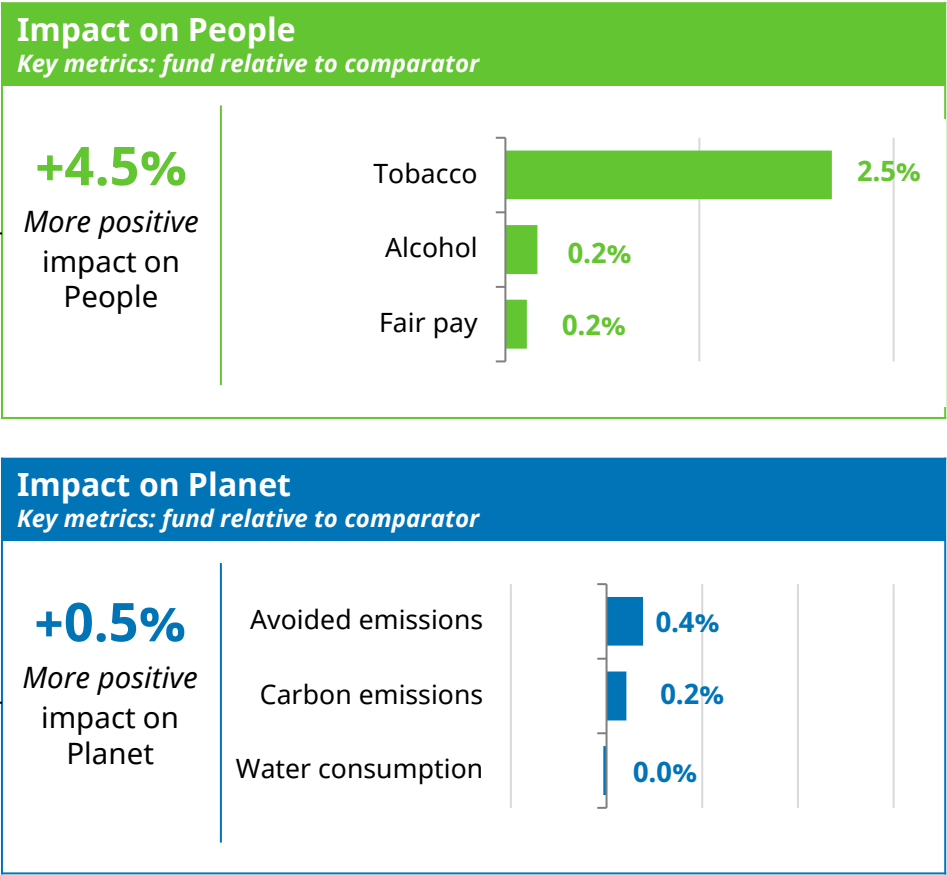
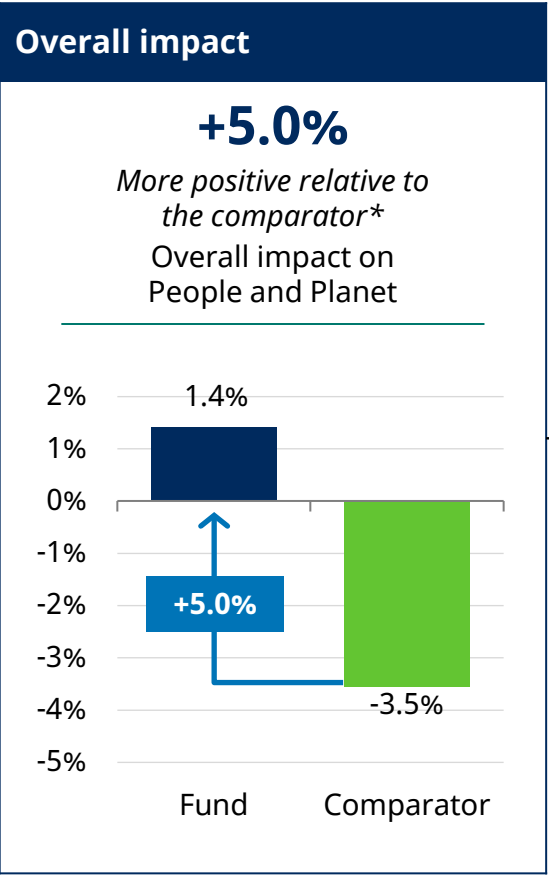


Source: Schroder as of 31 March 2022 for Schroder ISF Global Diversified Growth.

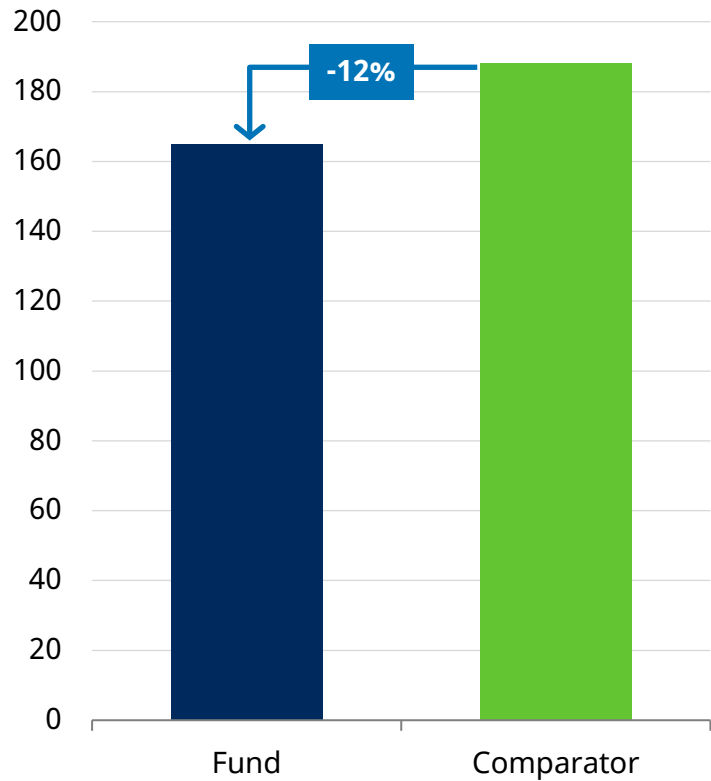
The EU Sustainable Finance Disclosure Regulation (SFDR) is a set of EU rules which aim to make the sustainability profile of funds more comparable and better understood by end-investors. There are three types of products: ¹**Article 6** strategies/funds do not have a sustainability objective or binding environmental or social characteristics but is managed using an investment process that integrates sustainability; ²**Article 8** strategies/funds have binding environmental or social characteristics; ³**Article 9** strategies/funds have sustainable investment as the objective and the large majority of the product’s investments have a positive impact on environmental or social objectives. Strategies are managed in line with the respective Schroder ISF pooled vehicle. Not integrated strategies are diversifying absolute return strategies managed by a third party investment team.

Impact reporting

Positive sustainability profile



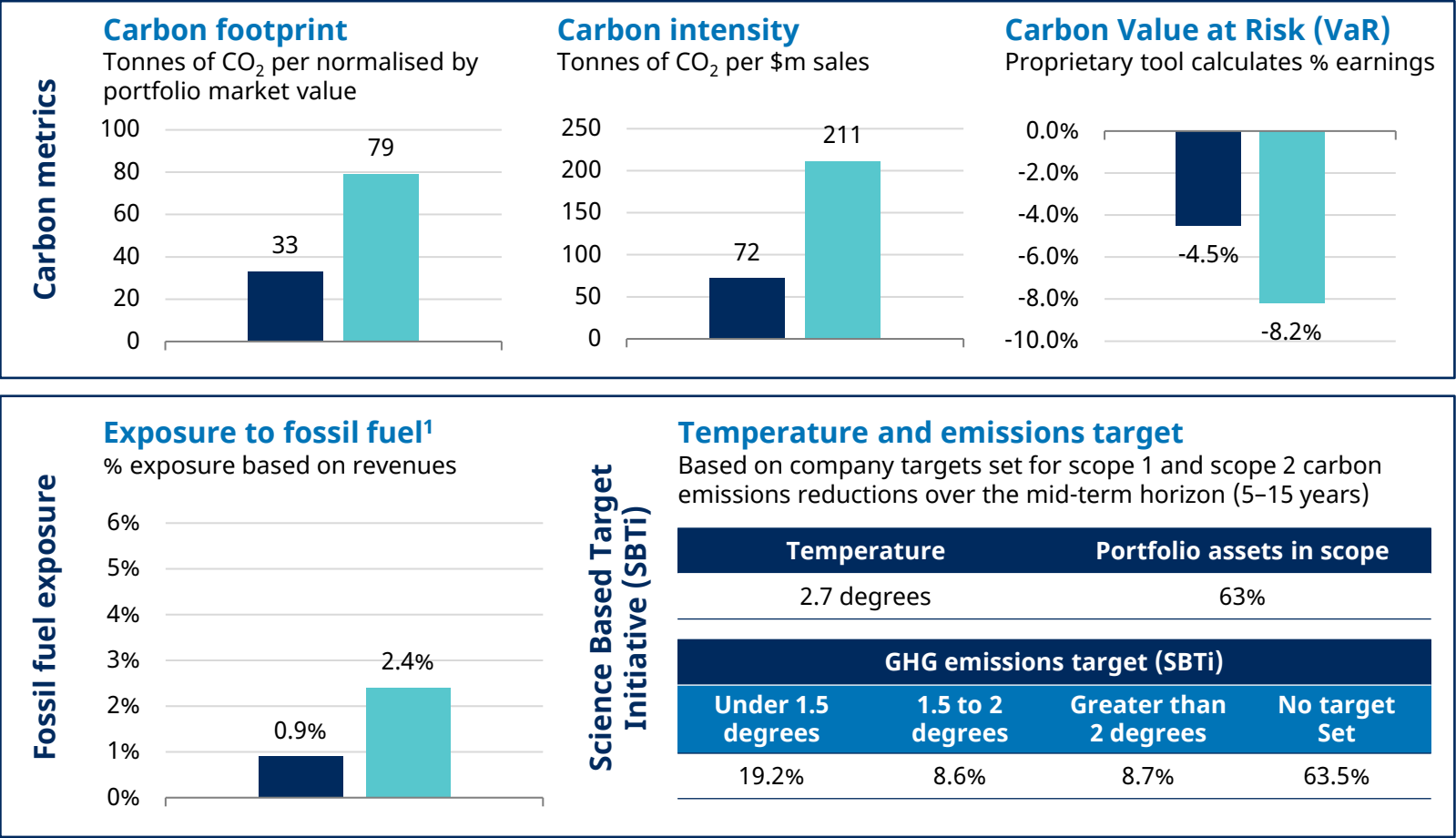
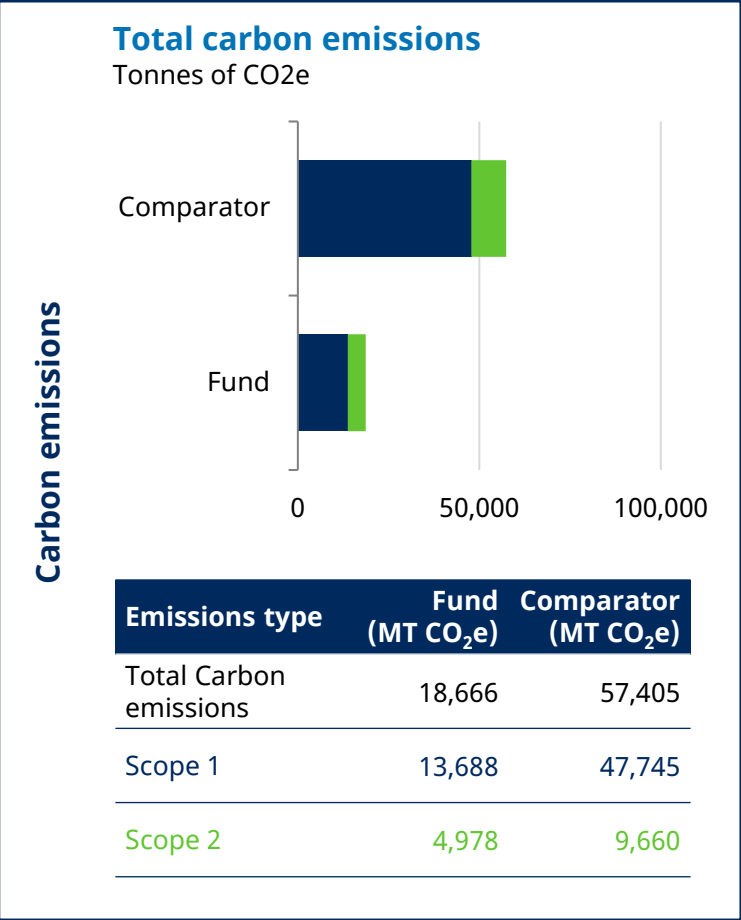
Carbon Intensity²



Source: Schroders, as at 31 March 2022. SustainEx analysis is based on corporate equity, corporate debt and government bonds and excludes the impact of cash, derivatives and assets which have no coverage. The bespoke comparator* used is an asset-weighted blend that will evolve over time in line with the actual asset allocation of the fund. ¹SustainEx measures the net benefit or harm to society that companies create per \$100 of revenue they produce, expressed as a percentage. Carbon analysis is based on corporate equity and debt and excludes the impact of cash, derivatives and assets which have no coverage (government bonds and alternatives). ²MSCI, Carbon intensity is defined as (Scope 1 + 2 emissions of CO2 equivalents)/\$m sales. SustainEx coverage is 67% for the fund and 84% for the comparator; fund carbon intensity coverage is 63% for the fund and 76% for the comparator. For illustrative purposes only and not to be viewed as a recommendation to buy/sell securities.

Climate metrics

Illustrative Example: Sustainable Diversified Growth Portfolio



Source: Source: Schroders, This slide is for illustrative purposes only. MSCI, as of 31 March 2022. Metrics based on corporate equity and debt and excludes the impact of cash, derivatives and assets which have no coverage (government bonds and alternatives). Fund coverage 60% and comparator coverage is 73%. The bespoke comparator used is an asset-weighted blend of indices that will evolve over time in line with the actual asset allocation of the fund. ¹Total fossil fuels includes companies generating more than 10% of revenue from Thermal Coal, Unconventional Oil and Gas and Conventional Oil and Gas exposure.

Sustainability is more than single companies.
Investing in sustainable trends



**Impact
Investments**



Urbanisation



**Technology
Enablers**



**Changing
Consumption**

Source: Schrodgers, for illustrative purposes only.



Demographics



Greener world

Are DGFs still relevant?



A smoother path of returns

Because the journey matters as well as the outcome



Active ownership

To capture opportunities and engage with companies



Sustainability

Positive impact on people and planet



Dynamic Asset Allocation

To navigate challenging market conditions



Combining public and private assets

Access to full range of diversifying assets, managed holistically

Focus on value for money

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