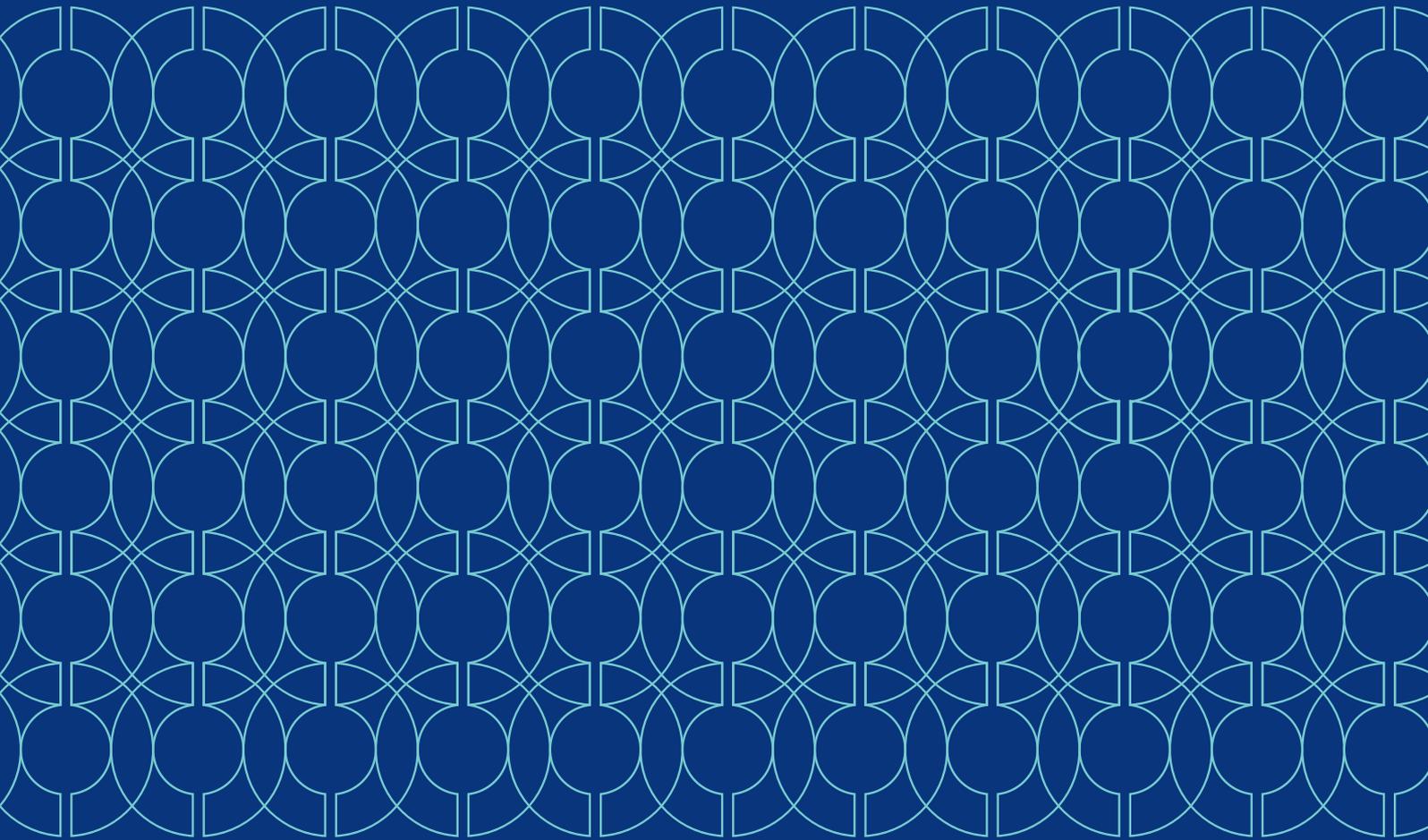


**Schroders**

**Schroder MM Diversity Income Fund**

**Interim Report and Accounts**

August 2020



## Schroder MM Diversity Income Fund

August 2020

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<sup>1</sup> Collectively these comprise the Manager's report.

# Fund Information

## Investment objective and policy

The Schroder MM Diversity Income Fund (the 'Fund') aims to provide capital growth in excess of the UK Consumer Price Index (after fees have been deducted) and income of 4% per annum over a five to seven year period by investing in a diversified range of assets and markets worldwide. This cannot be guaranteed and your capital is at risk.

The Fund is actively managed and invests its assets indirectly through collective investment schemes, exchange traded funds, real estate investment trusts or closed ended funds, in equity and equity related securities, fixed and floating rate securities and alternative assets worldwide.

Alternative assets may include hedge funds, private equity, real estate and commodities.

The Fund may also invest directly in equity and equity related securities and fixed and floating rate securities. The Fund may directly or indirectly invest in money market instruments, and may hold cash.

The Fund may invest up to 100% of its assets in collective investment schemes (including other Schroder funds).

The Fund will invest within the following ranges:

- Cash (including money market instruments) and Fixed Income 30% – 60%
- Equities 30% – 60%
- Alternative investments 5% – 40%

The Fund may use derivatives with the aim of reducing risk or managing the Fund more efficiently (for more information please refer to Section 10. "Derivatives and Forward Transactions" of Appendix 1 of the Prospectus).

## Fund characteristics

The Fund's performance should be assessed against the capital growth target benchmark of the UK Consumer Price Index and the income target of 4% per year, and compared against the Investment Association Mixed Investment 20% to 60% Shares sector average return. The target benchmark has been selected because the target return of the Fund is to deliver or exceed the return of that benchmark as stated in the investment objective. The comparator benchmark has been selected because the Investment Manager and the Manager believe that this benchmark is a suitable comparison for performance purposes given the Fund's investment objective and policy.

## Total purchases and sales

|                        | For the period<br>to 31.8.20<br>£000's | For the year<br>to 28.2.20<br>£000's |
|------------------------|--|--------------------------------------|
| <b>Total purchases</b> | 8,320                                  | 2,742                                |
| <b>Total sales</b>     | 17,732                                 | 34,200                               |

# Fund Performance

|                      | Number of<br>units in issue<br>31.8.20 | Net asset<br>value p per unit<br>31.8.20 | Net asset<br>value p per unit<br>28.2.20 |
|----------------------|--|--|--|
| A Income units       | 510,050                                | 100.16                                   | 103.97                                   |
| A Accumulation units | 4,137,530                              | 137.02                                   | 139.93                                   |
| S Income units       | 3,157,571                              | 45.04                                    | 46.63                                    |
| S Accumulation units | 139,817                                | 53.48                                    | 54.47                                    |
| Z Income units       | 16,703,993                             | 104.25                                   | 108.01                                   |
| Z Accumulation units | 18,246,258                             | 142.29                                   | 145.02                                   |

**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. Exchange rate changes may cause the value of any overseas investments to rise or fall.**

# Review of Investment Activities

From 28 February 2020 to 28 August 2020, the price of Z Accumulation units on a dealing price to dealing price basis fell 2.27%. Alongside this, the fund delivered an income in line with its 4% target. In the same period, the Consumer Price Index decreased 0.02%<sup>1</sup>.

Our central view coming into 2020 was that global economy was gaining steam, with the positive growth differential that the US had enjoyed in the previous 18 months closing as activity in export-oriented nations such as Europe, Japan and China picked up. We expected this to stave off the deflationary fears that gripped markets in 2019, which given dislocated valuations across and within asset classes, presented an attractive risk/reward opportunity in some of the more cyclical segments of the market. Within equities, our exposure was steered away from funds holding expensive stocks and towards those invested in lesser favoured, more attractively valued shares. In stylistic terms, this meant a preference for 'value' over 'growth'. Within fixed interest, concerns over valuations across the bond market led us to maintain a sizeable allocation to cash. Finally, our alternatives allocation was invested in a combination of relative value strategies, market neutral strategies and gold.

Covid-19 created panic within markets and the level of volatility seen was unprecedented. The policy response arrived at a speed and scale that we have never seen before, and achieved its aim of reassuring investors. It has also gone a long way to altering the investment implications for everyone. Time will tell what the lasting impact will be.

The early phase of the unwind proved very difficult to side-step (everything and anything was sold in the initial panic). However, our cash weighting helped in this respect in lieu of expensive credit, while our gold allocation also provided some ballast through the market turmoil. As we moved into Q2, we saw improved numbers from our alternatives holdings, as well our equity funds delivering when the market rallied into the summer.

Evidently, while our 'value' exposure was hit hard through the initial sell-off in spite of already low valuations, it is being rewarded when the market rallies. This was certainly not the case in January. In fact, in relative terms, it has not been the case for some years. We are yet to see a marked style rotation at this point, however with the potential for further policy support and the prospect of this continuing post-crisis, conditions are ripe for it materialising.

Regarding performance, Schroder Global Gold has fared particularly well, and is up handsomely on the higher gold prices. Having incrementally added to the position in Q1 and through Q2, it is pleasing to see it deliver such rich gains. Elsewhere within equities, style factors proving to be a headwind to our underlying managers when compared against their benchmarks. However, the long term return prospects in the cyclical/value end of the market, where these managers are positioned, look compelling.

Cuts to dividends this year have created a challenge for equity income managers, however a focus on fundamentals and valuations rather than chasing yield remains the sensible approach. To some extent the portfolio was protected from these cuts with the majority of our equity exposure invested in funds that have an overlay strategy. The ability to supplement dividends through writing covered calls has been a useful tool, and offered something of a cushion.

In the alternatives sleeve of the fund we have made no significant changes, however we have seen increased activity levels. Majedie Asset Management Tortoise Fund in particular, taking advantage of weakness in some of the beaten up cyclical segments of the market to add to the long book, while at the same time taking profits on short positions after falling prices in Q1. This has benefited performance after a challenging start to the year.

Finally, within the cash/bond allocation we took advantage of the volatility in fixed interest to add Invesco Tactical Bond Fund to the portfolio at the start of Q2, whilst also increasing our weighting in Schroder Strategic Credit Fund. This helped in a small way to boosting the portfolio's income levels. This increase in bonds brought the cash weighting down from just over 20% in March to below 10% at the end of August. We remain on the lookout for other opportunities in fixed interest.

Given the extraordinary environment we find ourselves in today, the economic and market outcomes are wide-ranging. However, if the economy is to recover over the next few years, as we consider likely, then statistically cheap segments of the market offer compelling return potential. Certainly, our assessment of risk/reward is most favourable in this area. As we look across holdings in the portfolio, we are excited by their prospects and believe the fund is well positioned to deliver for clients.

<sup>1</sup> Source: Thomson Reuters Datastream.

**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. Exchange rate changes may cause the value of any overseas investments to rise or fall.**

## Head of Multi-Manager:

Robin McDonald



Robin is Head of the Multi Manager team

Joined Schroders in July 2013 following the acquisition of Cazenove Capital

Previous to the acquisition he was a Fund Manager at Cazenove Capital, which he joined in October 2007, responsible for co-managing the multi manager fund range as well as a few segregated mandates

Prior to this Robin was a Multi Manager Analyst at Gartmore, a position he held from September 2003

Up to this time he worked as a Multi Manager Analyst for Insight Investment Management, following its acquisition of Rothschild Asset Management in 2003, whom he joined in 2001

Robin began his career in September 1999 when he joined Bank of New York (Europe) Limited as a Client Relationship Executive

Robin is a CFA charterholder

## Co-Fund Manager:

Joe Le Jéhan



Joined Schroders in July 2013 following the acquisition of Cazenove Capital

Previous to the acquisition he was a Fund Manager in the Multi Manager team at Cazenove Capital from January 2013, a firm he joined in March 2008 as an Analyst

Prior to this, Joe was a Fund Analyst at Brewin Dolphin, a position he held from January 2005

Joe began his career in September 2000, as an Associate on Retail Funds in the Assurance and Business Advisory Division at PricewaterhouseCoopers

Joe is a CFA charterholder

# Risk Profile

## Risk and reward indicator



The risk category was calculated using historical performance data and may not be a reliable indicator of the Fund's future risk profile. The Fund's risk category is not guaranteed to remain fixed and may change over time. A fund in the lowest category does not mean a risk-free investment.

The risk and reward indicator changed from 3 to 4 with effect from 6 July 2020.

For specific risks, including the risk and reward profile, please refer to the Key Investor Information Document available on the following website [www.schroders.com](http://www.schroders.com).

# Statement of the Manager's Responsibilities

The Financial Conduct Authority's Collective Investment Schemes sourcebook requires the Manager to prepare accounts for each annual and half yearly accounting period, in accordance with United Kingdom Generally Accepted Accounting Practice, which give a true and fair view of the financial position of the Fund and of its net revenue and the net capital losses on the property of the Fund for the period. In preparing the accounts the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association (now the Investment Association) in May 2014;
- follow generally accepted accounting principles and applicable accounting standards;
- prepare the accounts on the basis that the Fund will continue in operation unless it is inappropriate to do so;
- keep proper accounting records which enable it to demonstrate that the accounts as prepared comply with the above requirements;
- make judgements and estimates that are prudent and reasonable.

The Manager is responsible for the management of the Fund in accordance with its Trust Deed, the Prospectus and the Collective Investment Schemes sourcebook, and for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law or regulations.

The Manager's report and accounts for the period ended 31 August 2020 were signed on 22 October 2020 on behalf of the Manager by:

**P. Chislett**  
Directors

**J. Rainbow**

# Portfolio Statement

|  | Holding at<br>31.8.20 | Market Value<br>£000's | % of net<br>assets |
|--|-----------------------|------------------------|--------------------|
| <b>Collective Investment Schemes 99.15% (99.30%)</b>                           |                       |                        |                    |
| <b>Absolute Return Funds 2.61% (3.19%)</b>                                     |                       |                        |                    |
| Morgan Stanley Global<br>Multi-Asset Opportunities<br>Fund ZH GBP <sup>^</sup> | 61,000                | 1,330                  | 2.61               |
|  |                       | <b>1,330</b>           | <b>2.61</b>        |

|   |        |              |             |
|---|--------|--------------|-------------|
| <b>Cash Funds 6.22% (18.28%)</b>  |        |              |             |
| Schroder Sterling<br>Liquidity Plus Fund<br>I Distribution GBP <sup>^††</sup> | 30,000 | 3,177        | 6.22        |
|   |        | <b>3,177</b> | <b>6.22</b> |

|   |        |              |             |
|---|--------|--------------|-------------|
| <b>Commodity Funds 9.53% (7.98%)</b>                                    |        |              |             |
| iShares Physical Gold<br>ETC GBP  | 68,000 | 1,960        | 3.84        |
| Schroder Global Gold<br>Fund C Accumulation<br>USD <sup>^†</sup>        | 7,000  | 864          | 1.69        |
| Schroder Global Gold<br>Fund C Distribution<br>GBP Hedged <sup>^†</sup> | 20,000 | 2,040        | 4.00        |
|   |        | <b>4,864</b> | <b>9.53</b> |

|   |           |               |              |
|---|-----------|---------------|--------------|
| <b>Global Equity Funds 26.44% (27.18%)</b>                              |           |               |              |
| Majedie Asset<br>Management Tortoise<br>Fund G GBP <sup>^</sup>         | 3,200,000 | 5,142         | 10.07        |
| RWC Global Enhanced<br>Dividend Fund<br>B Distribution GBP <sup>^</sup> | 108,500   | 8,360         | 16.37        |
|   |           | <b>13,502</b> | <b>26.44</b> |

|  | Holding at<br>31.8.20 | Market Value<br>£000's | % of net<br>assets |
|--|-----------------------|------------------------|--------------------|
| <b>Global Fixed Interest Funds 22.83% (10.58%)</b>           |                       |                        |                    |
| Invesco Tactical Bond<br>Fund Income <sup>^</sup>            | 4,700,000             | 5,894                  | 11.54              |
| Schroder Strategic Credit<br>Fund L Income GBP <sup>^†</sup> | 6,200,000             | 5,765                  | 11.29              |
|  |                       | <b>11,659</b>          | <b>22.83</b>       |

|   |            |               |              |
|---|------------|---------------|--------------|
| <b>UK Equity Funds 31.52% (31.05%)</b>                          |            |               |              |
| Jupiter Income Trust<br>I Income GBP <sup>^</sup>               | 260,000    | 1,070         | 2.10         |
| RWC Enhanced Income<br>Fund B Distribution GBP <sup>^</sup>     | 175,000    | 10,736        | 21.03        |
| Schroder Income<br>Maximiser Fund<br>Z Income GBP <sup>^†</sup> | 12,175,000 | 4,282         | 8.39         |
|   |            | <b>16,088</b> | <b>31.52</b> |

|  |  |  |  |
|--|--|--|--|
| <b>UK Fixed Income Funds 0.00% (1.04%)</b> |  |  |  |
|--|--|--|--|

|   |  |               |               |
|---|--|---------------|---------------|
| <b>Collective Investment Schemes total</b>    |  | <b>50,620</b> | <b>99.15</b>  |
| Portfolio of investments                      |  | <b>50,620</b> | <b>99.15</b>  |
| Net other assets                              |  | 434           | 0.85          |
| <b>Net assets attributable to unitholders</b> |  | <b>51,054</b> | <b>100.00</b> |

The comparative percentage figures in brackets are as at 28 February 2020.

Unless otherwise stated, all securities are admitted to official stock exchange listings or are permitted collective investment schemes.

<sup>^</sup> Unlisted, suspended or delisted security.

<sup>†</sup> A related party to the Fund.

1 Cash equivalents.

# Statement of Total Return (unaudited)

For the six months ended 31 August 2020

|  | 31.8.20    |                | 31.8.19      |                |
|--|------------|----------------|--------------|----------------|
|  | £000's     | £000's         | £000's       | £000's         |
| <b>Income</b>  |            |                |              |                |
| Net capital losses   |            | (2,259)        |              | (1,302)        |
| Revenue  | 971        |                | 1,650        |                |
| Expenses   | (200)      |                | (324)        |                |
| Net revenue before taxation  | <b>771</b> |                | <b>1,326</b> |                |
| Taxation   | (24)       |                | (32)         |                |
| Net revenue after taxation   |            | <b>747</b>     |              | <b>1,294</b>   |
| <b>Total return before distributions</b>   |            | <b>(1,512)</b> |              | <b>(8)</b>     |
| Distributions  |            | (914)          |              | (1,565)        |
| <b>Change in net assets attributable to unitholders from investment activities</b> |            | <b>(2,426)</b> |              | <b>(1,573)</b> |

# Statement of Change in Net Assets Attributable to Unitholders (unaudited)

For the six months ended 31 August 2020

|   | 31.8.20  |                     | 31.8.19  |                           |
|---|----------|---------------------|----------|---------------------------|
|   | £000's   | £000's              | £000's   | £000's                    |
| Opening net assets attributable to unitholders                              |          | 62,764 <sup>^</sup> |          | 98,428                    |
| Amounts receivable on issue of units  | 387      |                     | 3,201    |                           |
| Amounts payable on cancellation of units                                    | (10,202) |                     | (17,471) |                           |
|   |          | <b>(9,815)</b>      |          | <b>(14,270)</b>           |
| Change in net assets attributable to unitholders from investment activities |          | (2,426)             |          | (1,573)                   |
| Retained distribution on Accumulation units                                 |          | 531                 |          | 793                       |
| <b>Closing net assets attributable to unitholders</b>                       |          | <b>51,054</b>       |          | <b>83,378<sup>^</sup></b> |

<sup>^</sup> The opening net assets attributable to unitholders for the current period do not equal the closing net assets attributable to unitholders for the comparative period as they are not consecutive periods.

# Balance Sheet (unaudited)

As at 31 August 2020

|   | 31.8.20       | 28.2.20       |
|---|---------------|---------------|
|   | £000's        | £000's        |
| <b>Assets</b>                                 |               |               |
| Investments                                   | 47,443        | 50,855        |
| <b>Current assets</b>                         |               |               |
| Debtors                                       | 270           | 170           |
| Cash and bank balances                        | 843           | 1,029         |
| Cash equivalents                              | 3,177         | 11,471        |
| <b>Total assets</b>                           | <b>51,733</b> | <b>63,525</b> |
| <b>Liabilities</b>                            |               |               |
| <b>Creditors</b>                              |               |               |
| Distributions payable                         | (166)         | (244)         |
| Other creditors                               | (513)         | (517)         |
| <b>Total liabilities</b>                      | <b>(679)</b>  | <b>(761)</b>  |
| <b>Net assets attributable to unitholders</b> | <b>51,054</b> | <b>62,764</b> |

# Notes to the Accounts (unaudited)

## Basis of preparation

The accounts have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association in May 2014 and in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 (The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)).

## Accounting policies

The accounting policies applied are consistent with those of the annual accounts for the year ended 28 February 2020 and are described in those annual accounts.

# General Information

## Manager

Schroder Unit Trusts Limited  
1 London Wall Place  
London EC2Y 5AU

Authorised and regulated by the Financial Conduct Authority

## Investment Adviser

Schroder Investment Management Limited  
1 London Wall Place  
London EC2Y 5AU

Authorised and regulated by the Financial Conduct Authority

## Trustee

J.P. Morgan Europe Limited  
Chaseside  
Bournemouth BH7 7DA

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

## Registrar

Schroder Unit Trusts Limited  
1 London Wall Place  
London EC2Y 5AU

Authorised and regulated by the Financial Conduct Authority

The Manager is responsible for maintaining the register for each Fund. It has delegated certain registrar functions to HSBC Bank Plc, 8 Canada Square, London, E14 8HQ.

## Administration Details

Schroders Investor Services  
PO BOX 1402  
Sunderland  
SR43 4AF

## Independent Auditors

PricewaterhouseCoopers LLP  
Atria One  
144 Morrison Street  
Edinburgh EH3 8EX

## Authorisation

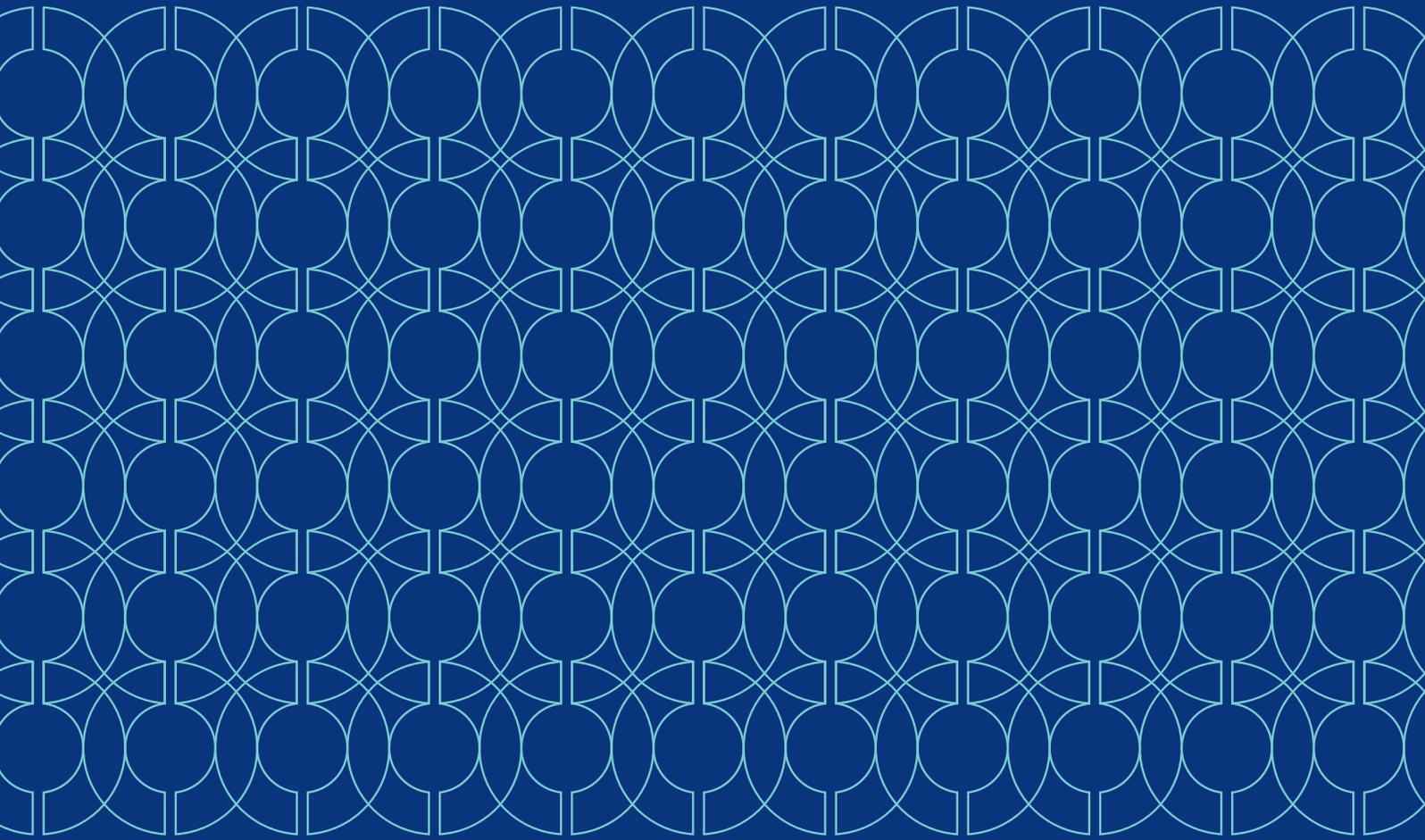
The Fund is an authorised unit trust and is constituted pursuant to the Collective Investment Schemes sourcebook and is structured as a Trust. The Fund is a non-UCITS retail scheme for the purpose of the categorisation of the Collective Investment Schemes sourcebook.

## Value Assessment

A statement on the Assessment of Value is published on the Global Fund Centre in the Fund Literature section at [www.Schroders.com](http://www.Schroders.com) within 4 months of the annual 'reference date' 31 December.

## Other information

The Prospectus, the Key Investor Information Document and details of investment charges and costs are available on request or can be downloaded from our website [www.schroders.com](http://www.schroders.com).



EST. 1804

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For further literature please contact Schroder Investor Services on 0800 182 2399 or [schrodersinvestor@HSBC.com](mailto:schrodersinvestor@HSBC.com) for Retail Clients, or 0345 030 7277 or [schrodersinstitutional@HSBC.com](mailto:schrodersinstitutional@HSBC.com) for Institutional Clients, or visit our website at [www.schroders.com](http://www.schroders.com).

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