25th April 2024

Is active management dead?

Investment opportunities in the 3D reset

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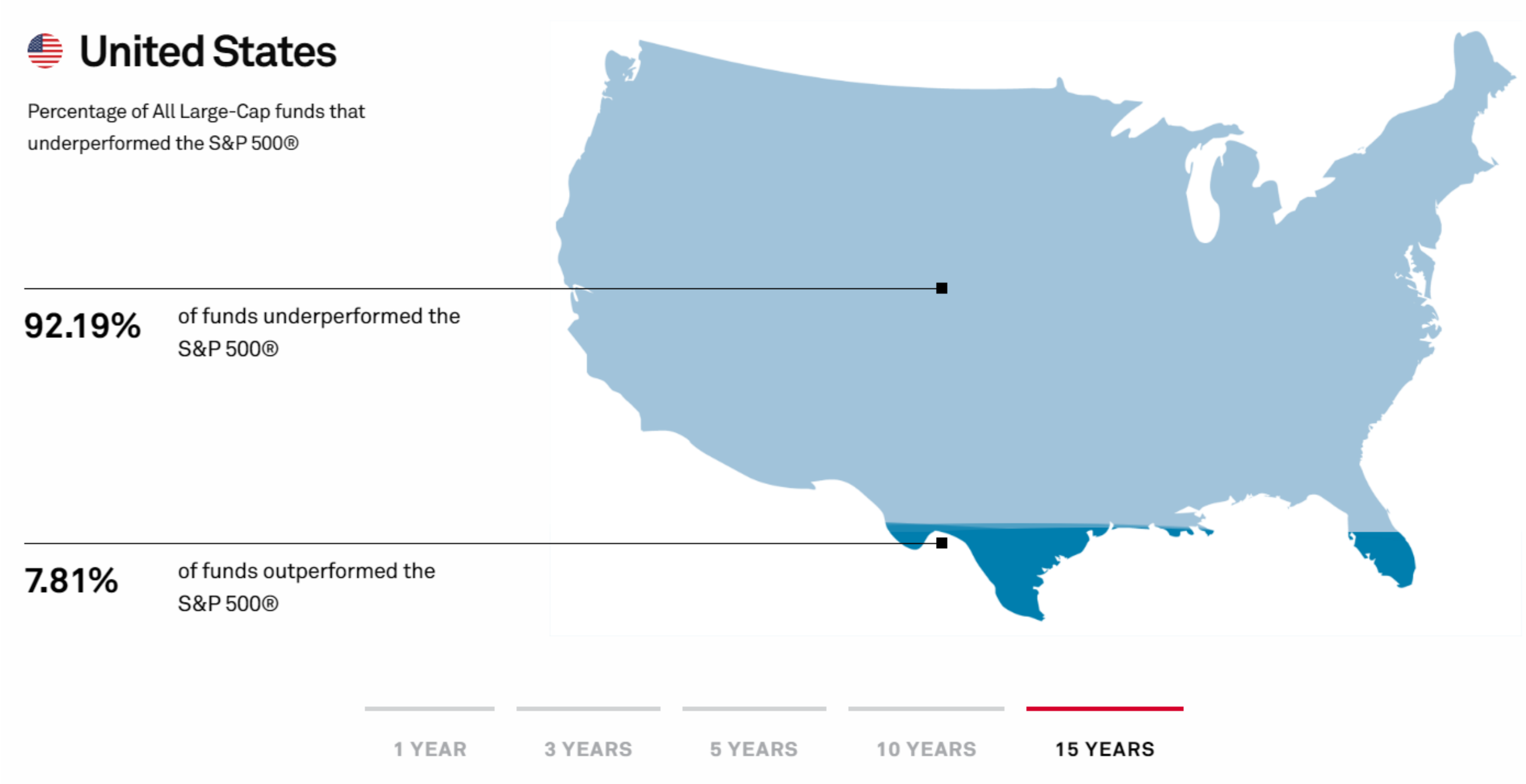
novia global

Evidence suggests it is…

Active equity managers are criticised for failing to beat their benchmarks



Source: S&P SPIVA June 2023

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… But the devil is in the detail

The mid and smaller cap segment of the market does better

% of Active equity managers which outperform a passive equivalent

Past performance is not a guide to future performance and may not be repeated.
Source: Morningstar European Active/Passive Barometer December 2022

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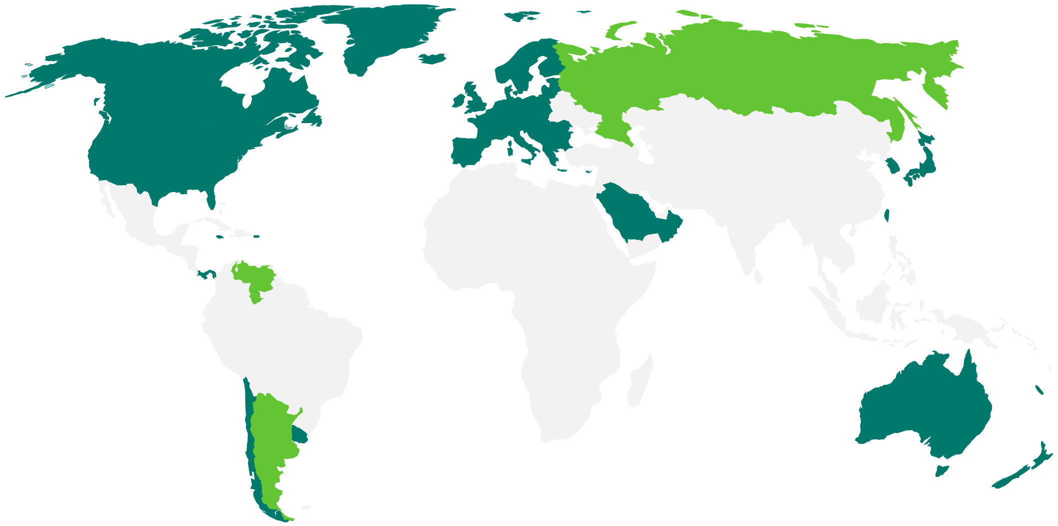
Market efficiency

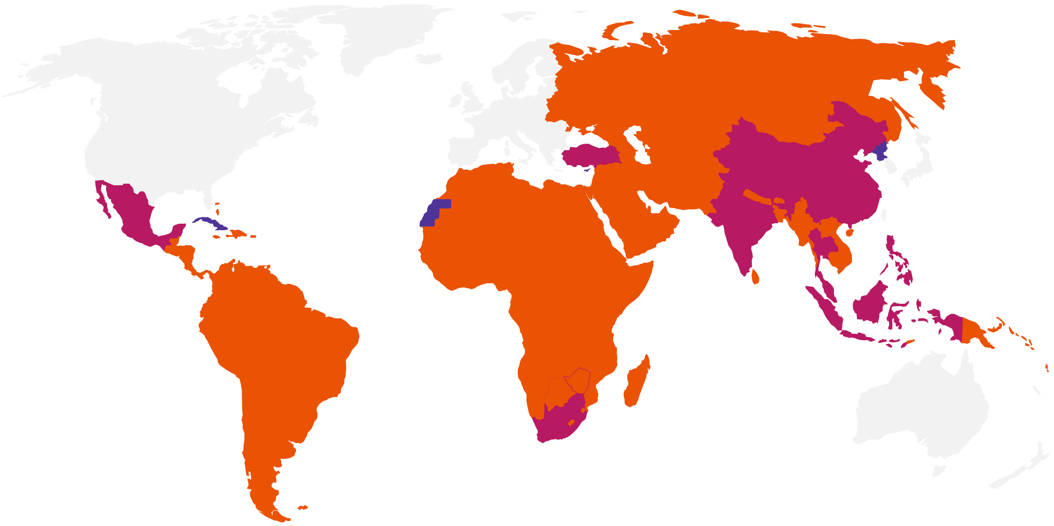
Not all markets are created equal

More efficient markets



- Developed economies have greater coverage by analysts
- Less price discovery
- Invest in passive instruments

Less efficient markets



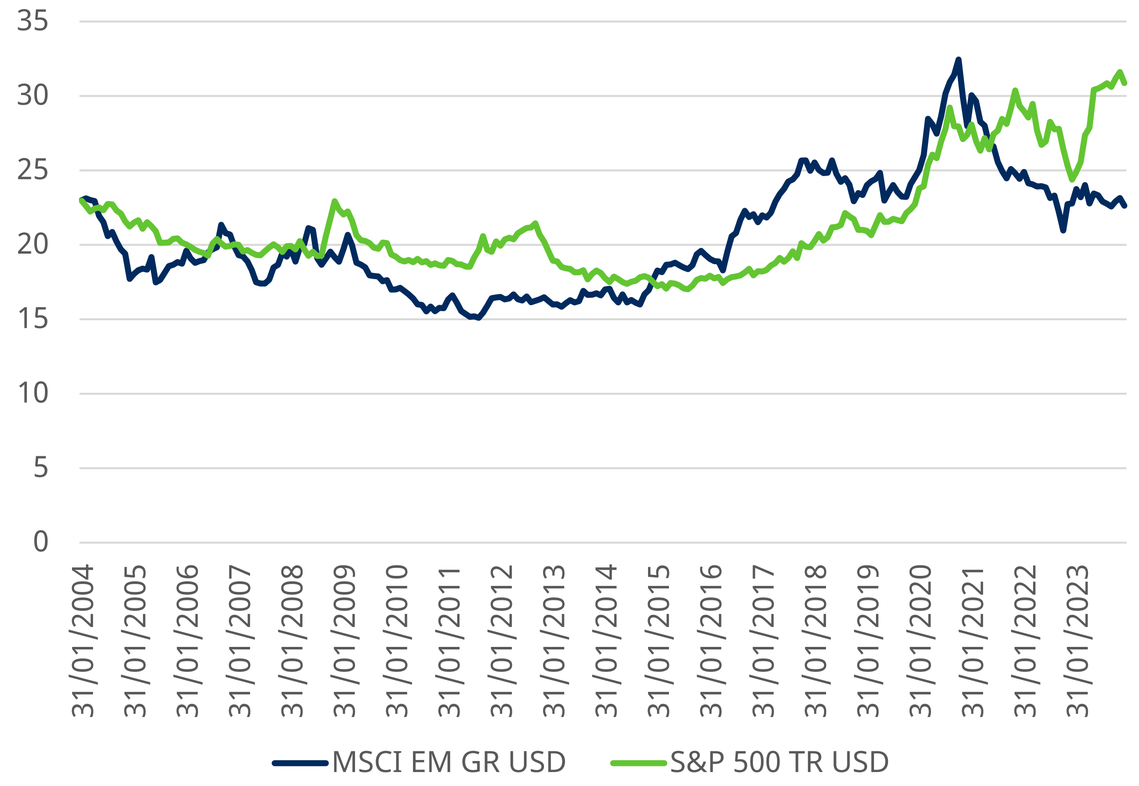
- Developing economies have less coverage by analysts
- Increased price discrepancy
- Invest in active managers

Source: Wikipedia 2019.

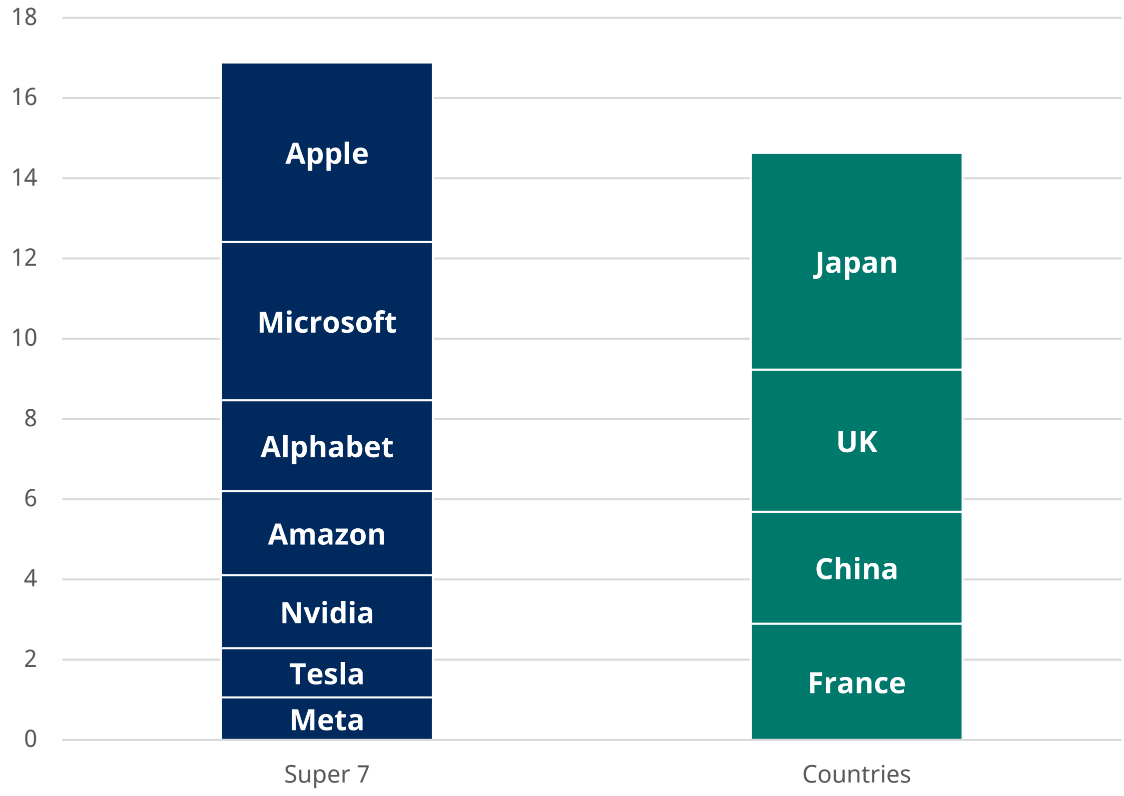
Weighing up the options

Concentration is a problem for investors trying to build diversified portfolios

% Assets in Top 10 holdings in the US vs Emerging Markets



The Super-7 make up more of MSCI ACWI than Japan, UK, China and France combined



Source: Morningstar December 2023

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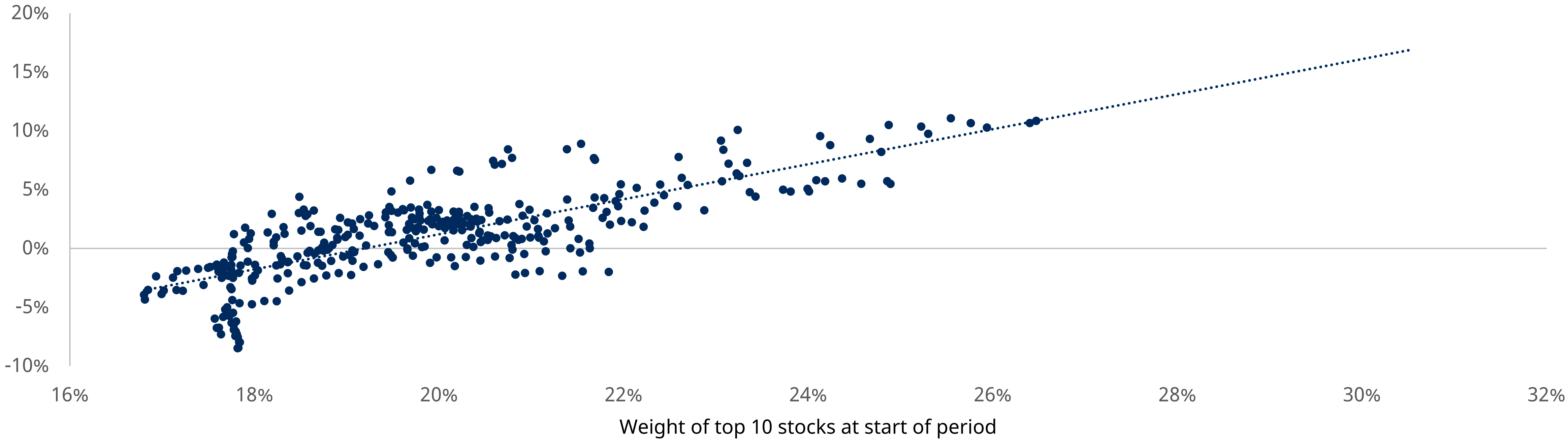
Deviating from the market has been a winning strategy when concentration has been high

Five-year outperformance of equal-weighted S&P 500 vs market-cap weighted S&P 500 (positive means equal-weighted outperforming)



Past performance is not a guide to future performance and may not be repeated.
Data to 31 December 1989 to 31 December 2023. Constituent weights are available monthly since May 1996 and annually previously. For those earlier periods, we have linearly interpolated between the annual figures to generate a monthly series. Redoing the analysis but only using annual figures for the earlier periods does not impact our conclusions. Rolling 60-month returns have been analysed. Statistical note: the rolling 60-month analysis includes overlapping periods and serial correlation is present in the data. This biases the standard errors in regular statistical tests, which can result in a false positive result i.e. a conclusion of a relationship when there is none. We have applied a Newey-West adjustment to the standard errors to correct for this. The conclusion of statistical significance is robust to this adjustment.
Source: LSEG Datastream, S&P, and Schroders. Please see relevant disclaimers.

Let’s recap the basics

Investment philosophy of passive and active investing

Passive	Active
Markets are efficient	Markets are inefficient
Market cap weights	Active weights
Information priced	Price discovery

Source: Schroder Investment Solutions

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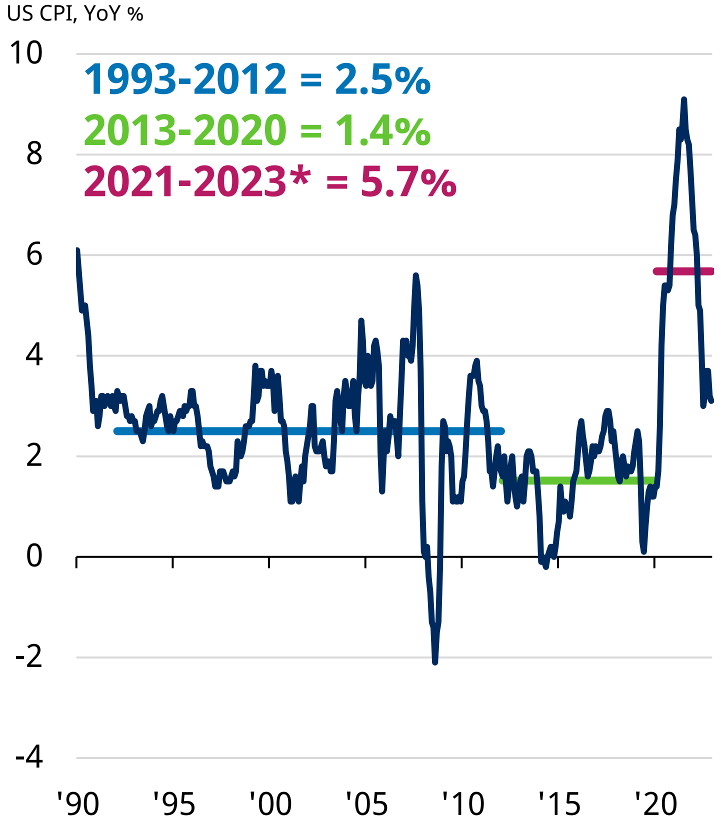
Is active management dead?

The 3Ds are reshaping the investment landscape

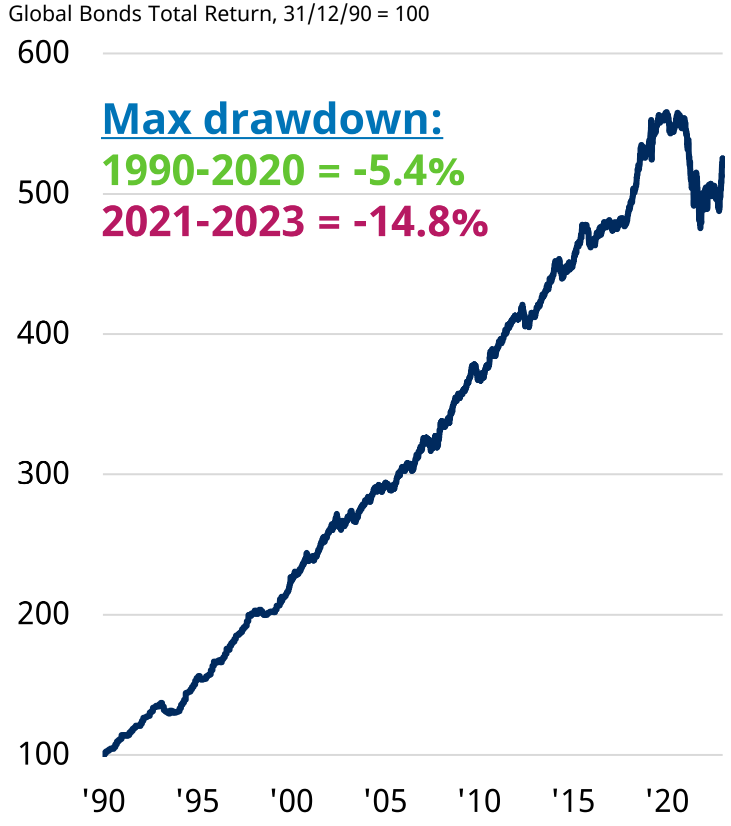
Will we return to the pre-covid years?

Low inflation, low rates, low volatility, negative equity-bond correlation

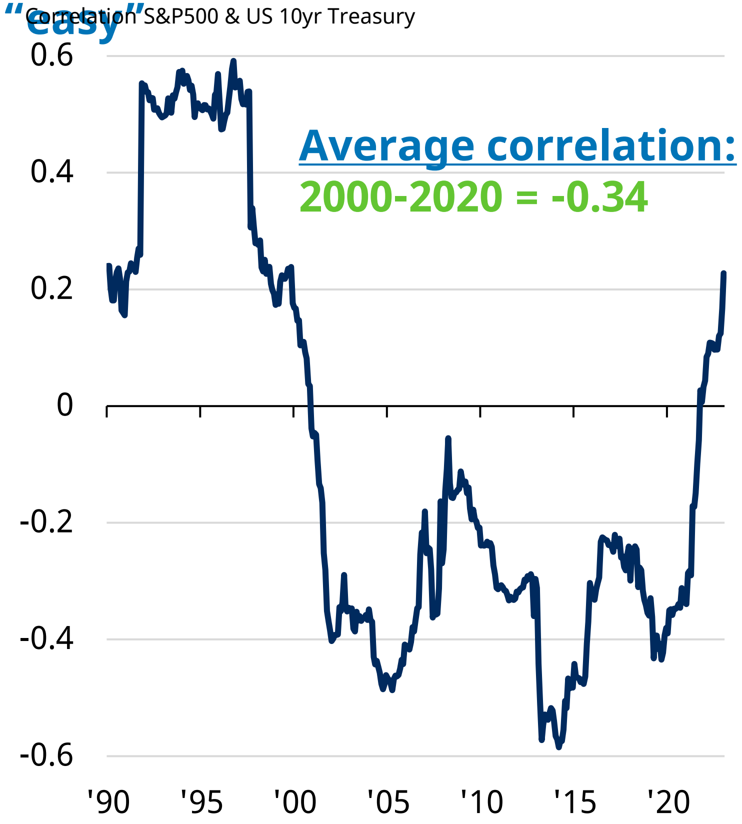
30 years of lowflation…



…bonds always went up…



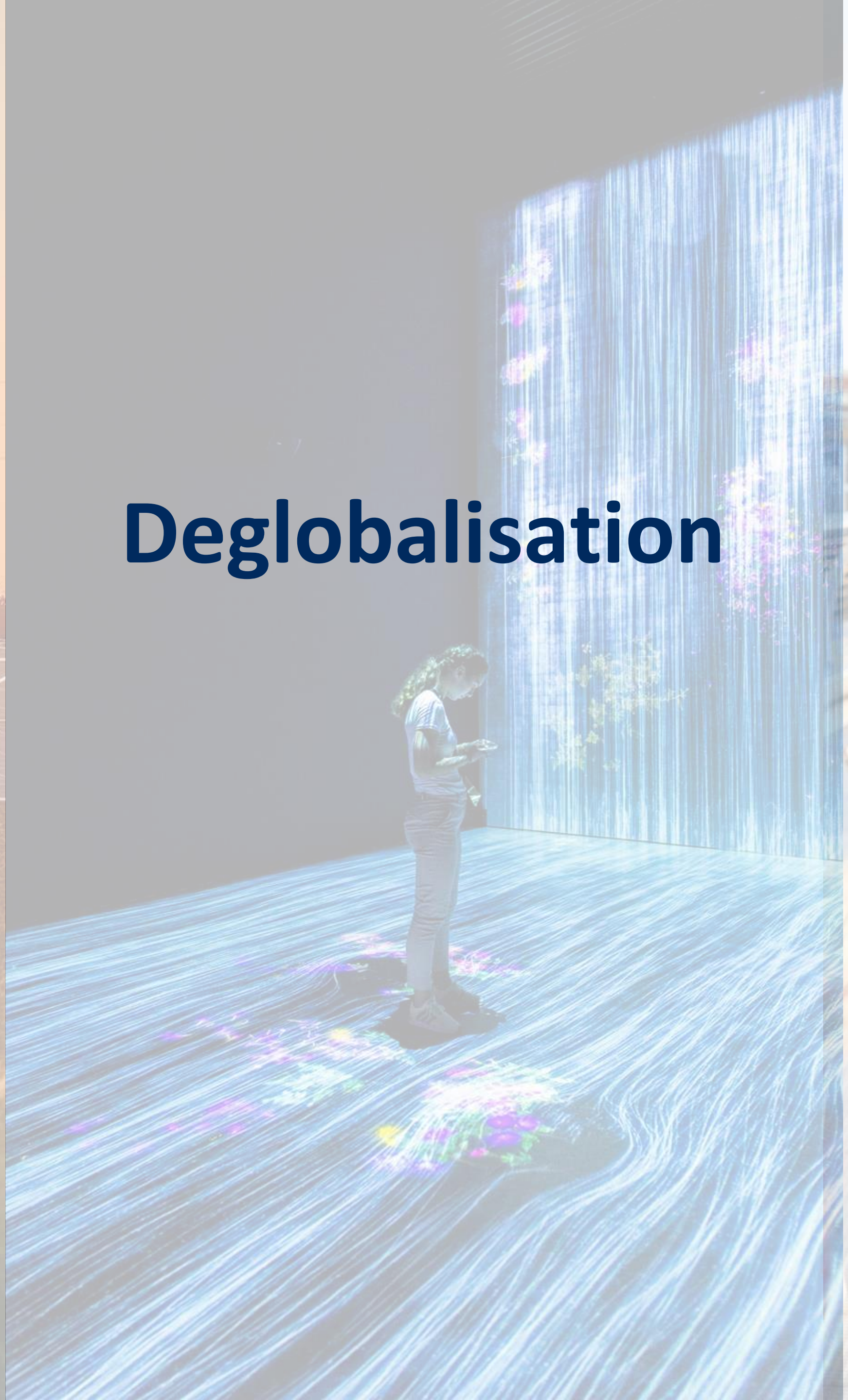
…portfolio construction was "easy"



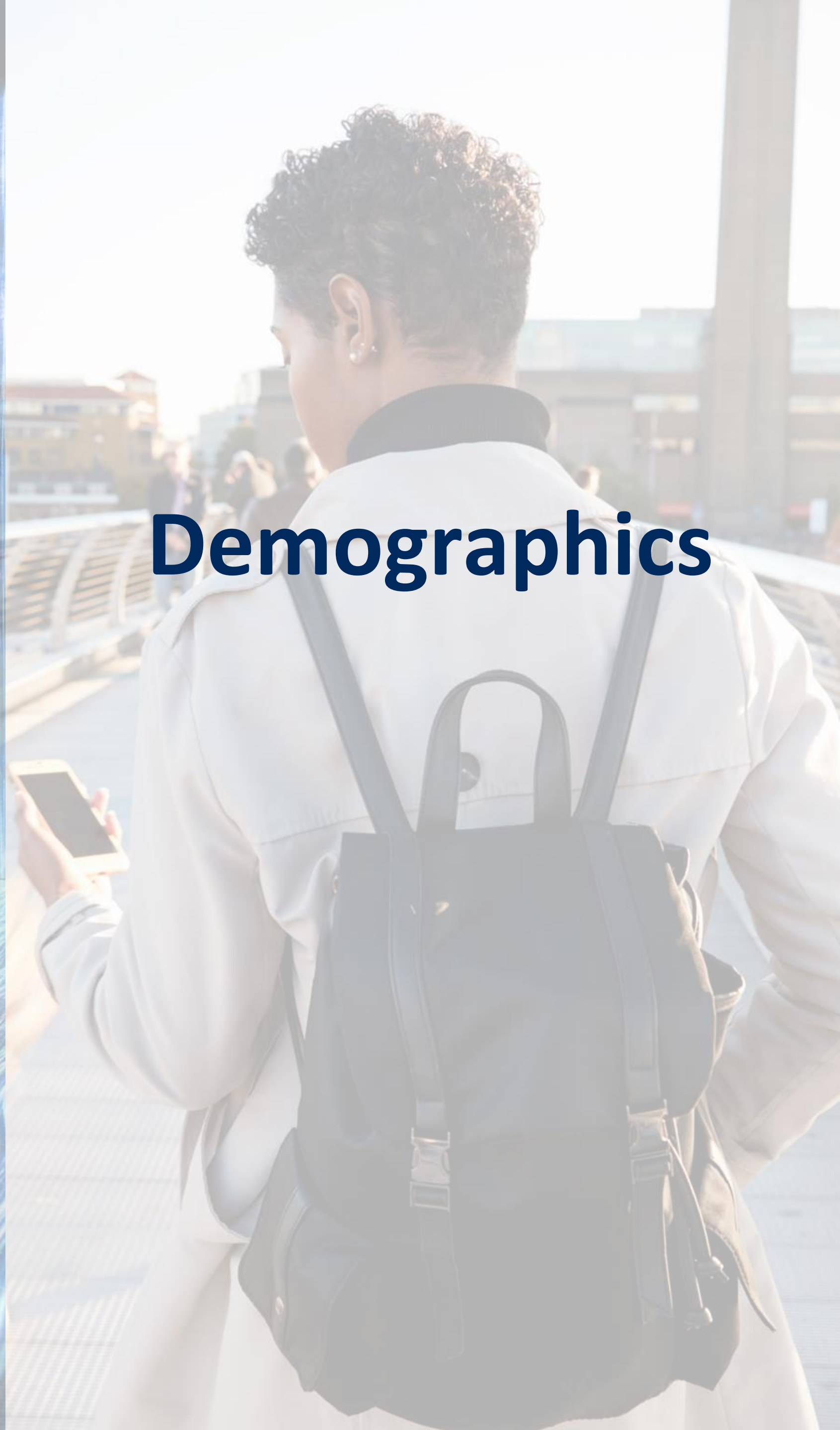
Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise. Source: Bloomberg, Robert Shiller, Schroders, as of 31 December 2023. LHS = US CPI YoY to 30 November 2023. Middle = Bloomberg Global Aggregate Total Return Hedged to USD, monthly data until 30 May 2000 then daily. RHS = chart shows rolling 5 year correlation of S&P500 and US 10yr Treasury; 2000-2020 quote is correlation 1/1/2000 to 31/12/2020; monthly data.

For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Decarbonisation



Deglobalisation



Demographics

Decarbonisation

Accelerating the response to climate change

More change to come

Growing momentum to drive change

Geopolitical tensions

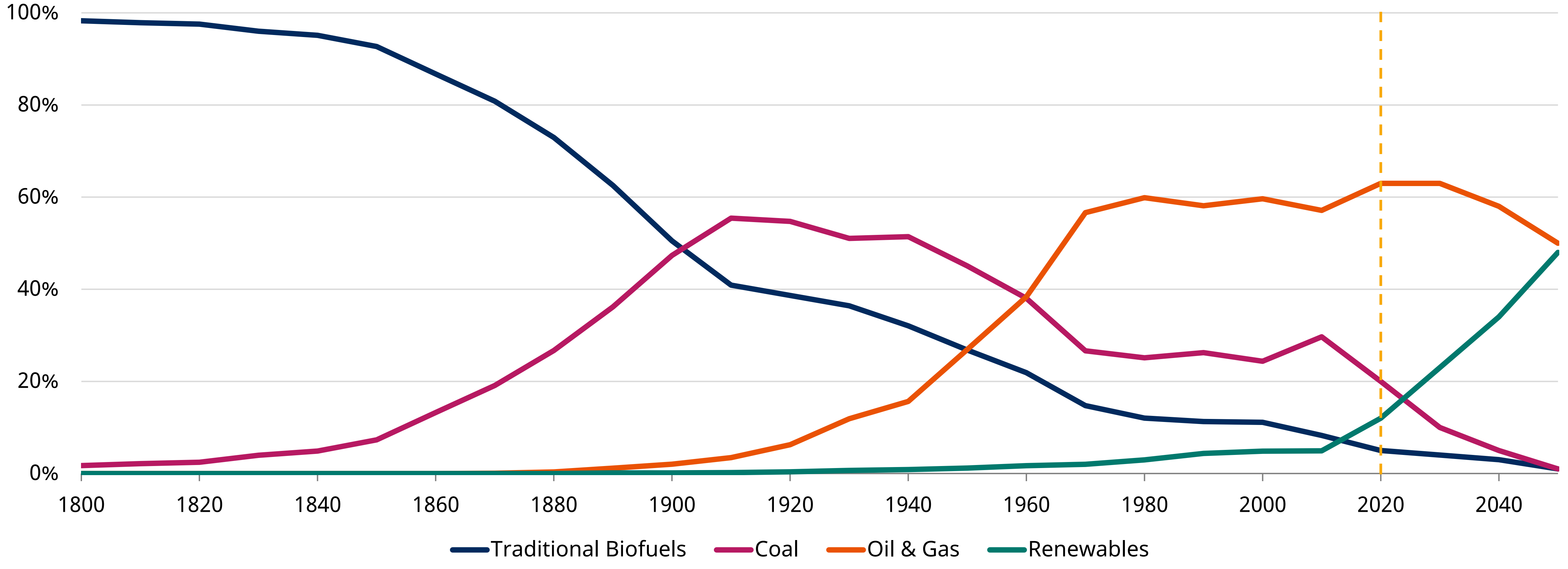
Green-flation will complicate the energy transition

Technological innovation will be key

Source: Schroders November 2023

Demand for clean technologies is going to accelerate

Share of global energy consumed



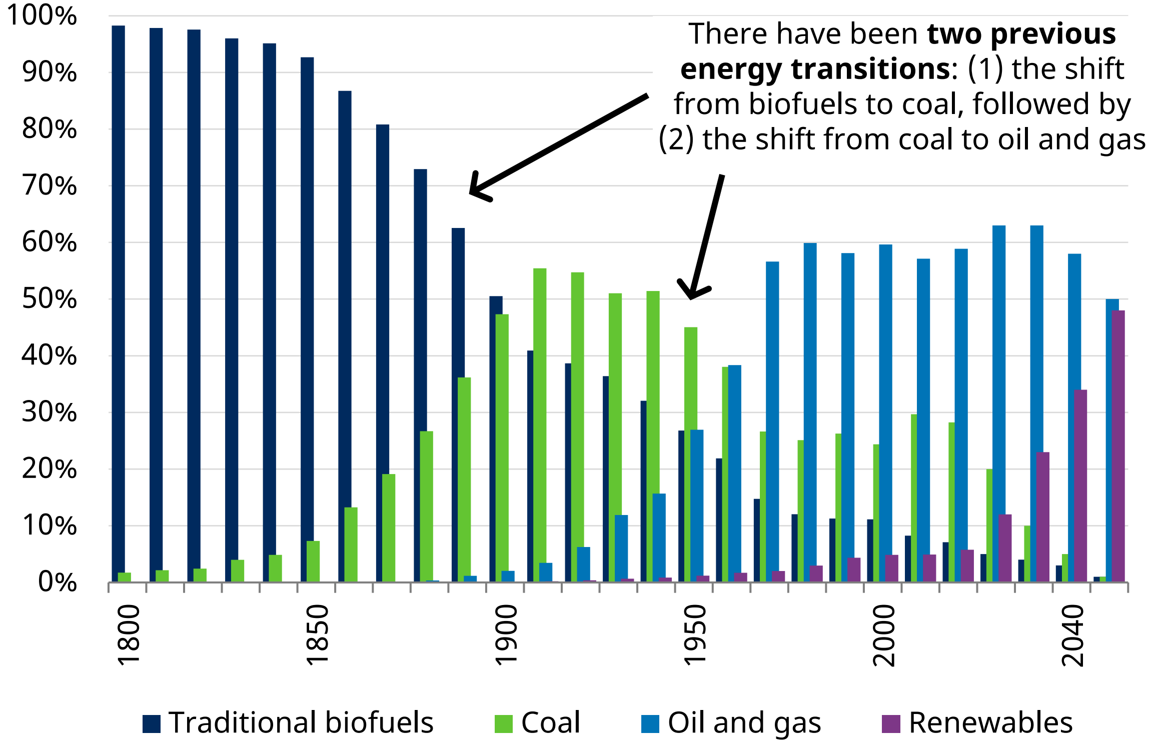
Source: IEA, Net Zero by 2050, World Bank, Schroders Economics Group, September 2022. Forecast may not be realised.

Response to climate change is accelerating

The stick or carrot approach

Demand for clean technologies is going to accelerate

Share of global energy consumed



The impact of climate change on productivity

Physical costs

- The rise in temperature that each country is likely to experience depends on its latitude with more northerly latitudes warming the most

Transition costs

- Carbon pricing will increase fuel prices and disincentivise consumption of carbon intensive fuels, shifting consumption towards low-carbon sources which will help limit global warming

Stranded assets

- Analysis from the IEA finds that almost 60% of oil and gas reserves, and over 80% of current coal reserves should remain unused to meet the Paris target

Source: IEA, Net Zero by 2050, World Bank, Schroders Economics Group, September 2022. IMF, December 2021

Deglobalisation

A new world order will challenge globalisation

Exposed global supply chains

Long-term inflationary pressures

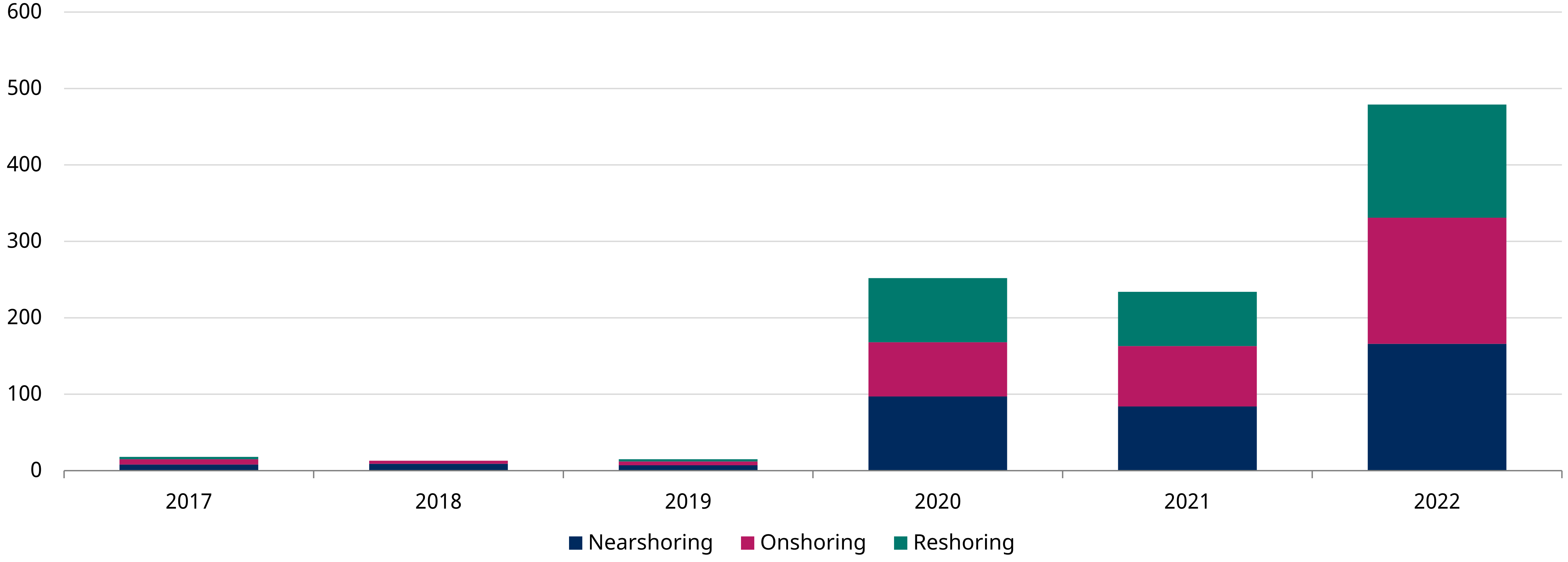
A new world order is developing

Accelerating the energy transition

Source: Schroders November 2023

Deglobalisation quickly becoming a reality, but will it continue?

Mentions of near/on/reshoring in corporate reports



Source: Schroders Investments Insights Unit, as of 31 March 2023.

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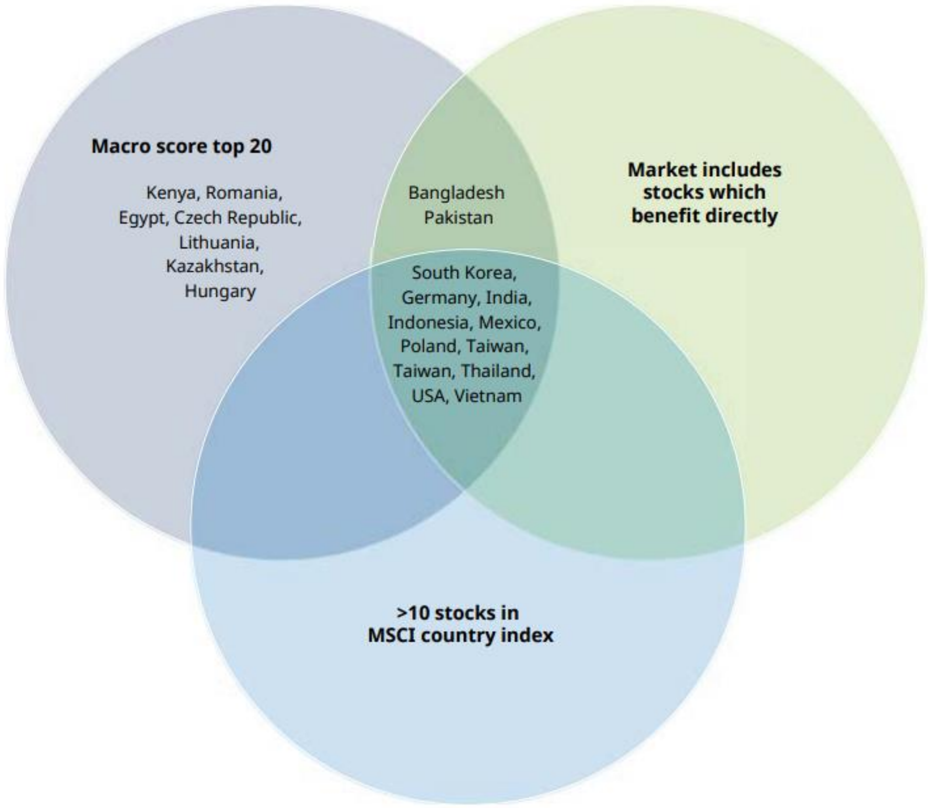
A new world order will challenge globalisation

Re-wiring of global supply chains is likely to be long term, multi-year process

Who are the potential winning markets?



Source: Schroders, April 2023

A framework for assessing potential beneficiaries

Business freedom

- A gauge of doing business in an economy
- Developed markets typically have more business freedom

GDP per capita as a share of the US

- A comparison of wage costs
- Germany and the US have the most expensive labour costs

Growth of productivity

- Measure of productivity from 2015 to 2019
- A key driver across central and eastern European markets

Working age population in 2028

- An indicator of the labour pool size
- India is forecast to offer the largest pool

Demographics

A missing workforce will increase the use of technology and AI

Falling labour force means scarce talent in the workforce

Increased inflationary pressures

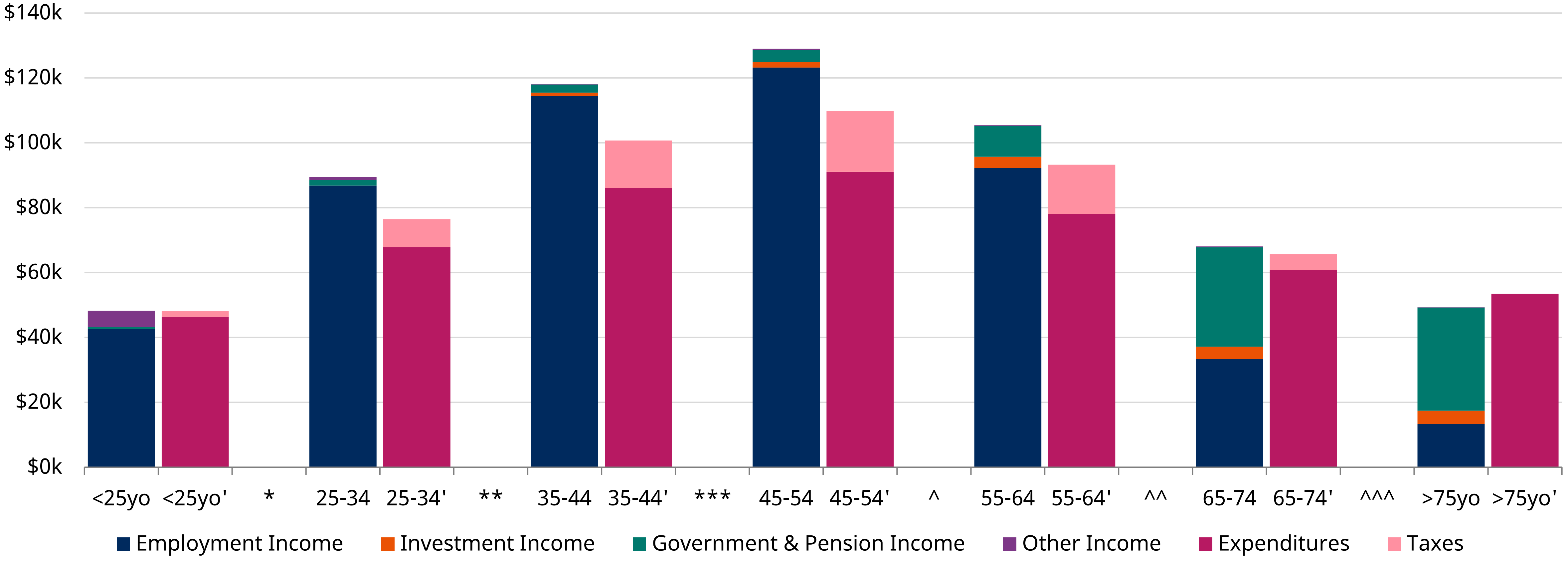
Increase in investments in productivity-boosting technologies

Importance of Human Capital Management

Source: Schroders November 2023

Aging population will work less but still spend

US income and expenditures by age group, 2022



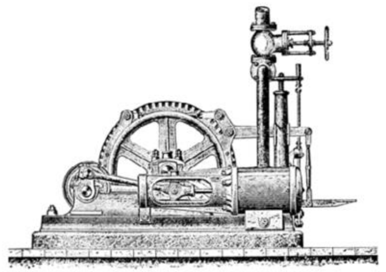
Source: Bureau of Labor Statistics' Consumer Expenditure Survey (2022), Schroders, as of 31 October 2023. Mean $ figure for each age group, except where data suppressed owing to small return within sample (<35yo investment income and >75yo taxes). For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

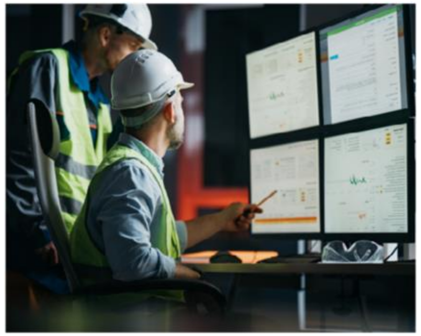
Labour shortages to drive investment in technology

Are we seeing a fourth industrial revolution?

Services sectors have lagged behind in the use of such technology compared to the manufacturing and production sectors

McKinsey & Co estimate that generative AI could add $2.6 trillion - $4.4 trillion annually to the global economy across 63 use cases analysed





1st	2nd	3rd	4th
Steam power combined with machines	Advent of assembly production line	Computers help to automate processes	Network effects improve efficiencies

Source: Schroders Economics Group, September 2023. McKinsey & Co report June 2023

Is active management dead?

Deciphering what comes next and where the opportunities are

Macroeconomic outcomes for investors

1	**Higher inflation for longer**	– Labour shortages – Challenge to globalization – Green-flation
2	**Tighter monetary policy**	– Reduced liquidity – Quantitative tightening – Need to reduce inflation
3	**Increased volatility and populist politics**	– High indebtedness with inequality – Low market tolerance for fiscal largess
4	**Reshaped global supply chains and energy policy**	– Food and energy security – Re-shoring, onshoring, protectionism – Response to climate change
5	**More investment in technology**	– Labour substitution – Higher hurdle rate for debt – Finding solutions for climate change

Source: Schroders. There is no guarantee these outcomes will materialise in future economic environment.

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

1

Disruptive forces herald a regime change

- Disruption can create both opportunities and risks
- Investors need to be vigilant and agile in identifying these shifts

2

All sources of diversification must be considered

- Asset class diversification across equities, bonds and alternatives
- Investing styles can perform differently under varying market conditions

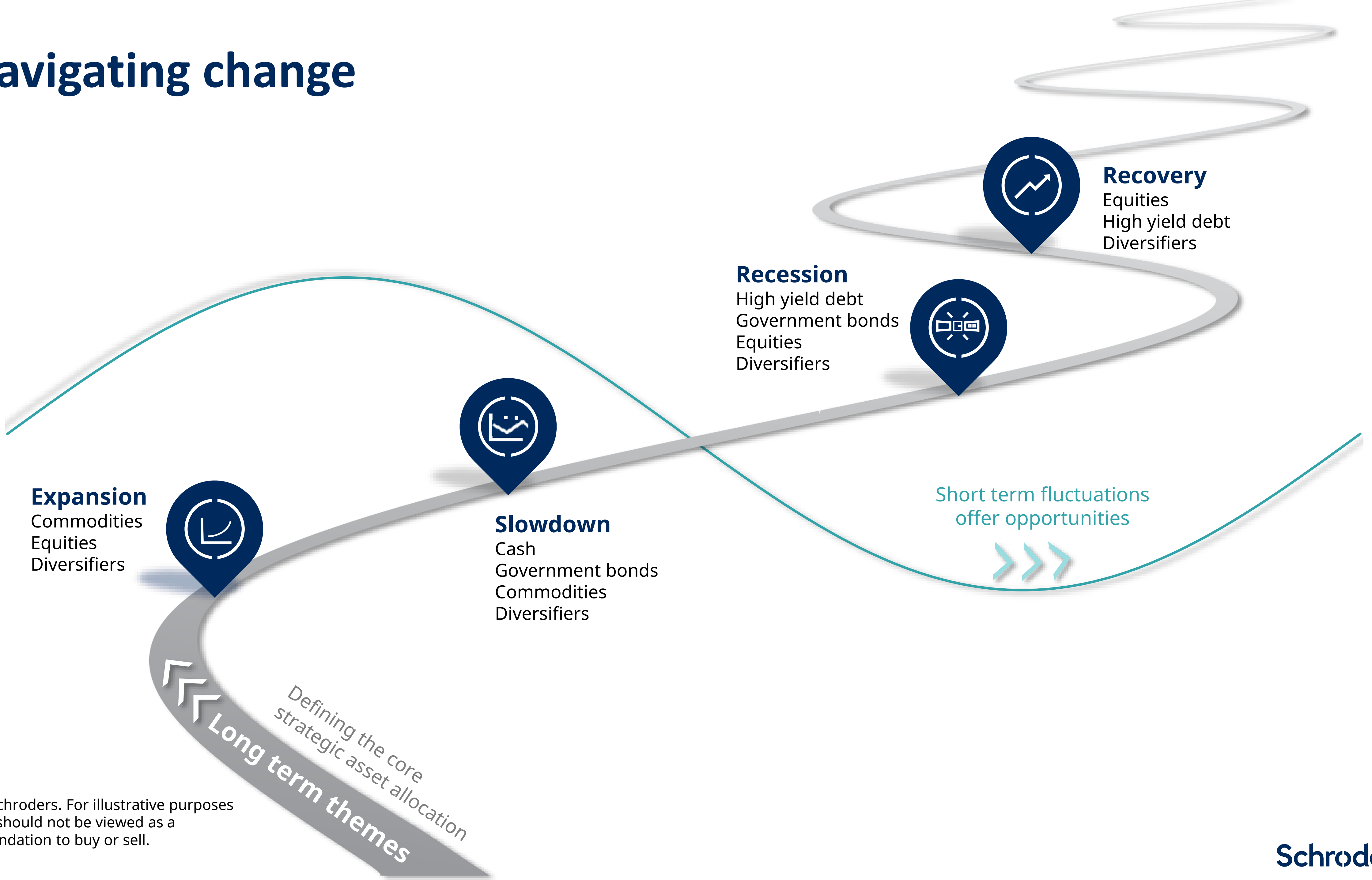
3

How returns are achieved matters

- Understanding the implications of risk and reward trade-off
- A flexible approach to adapt allocations between active and passive is beneficial

Source: Schroders

Navigating change



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

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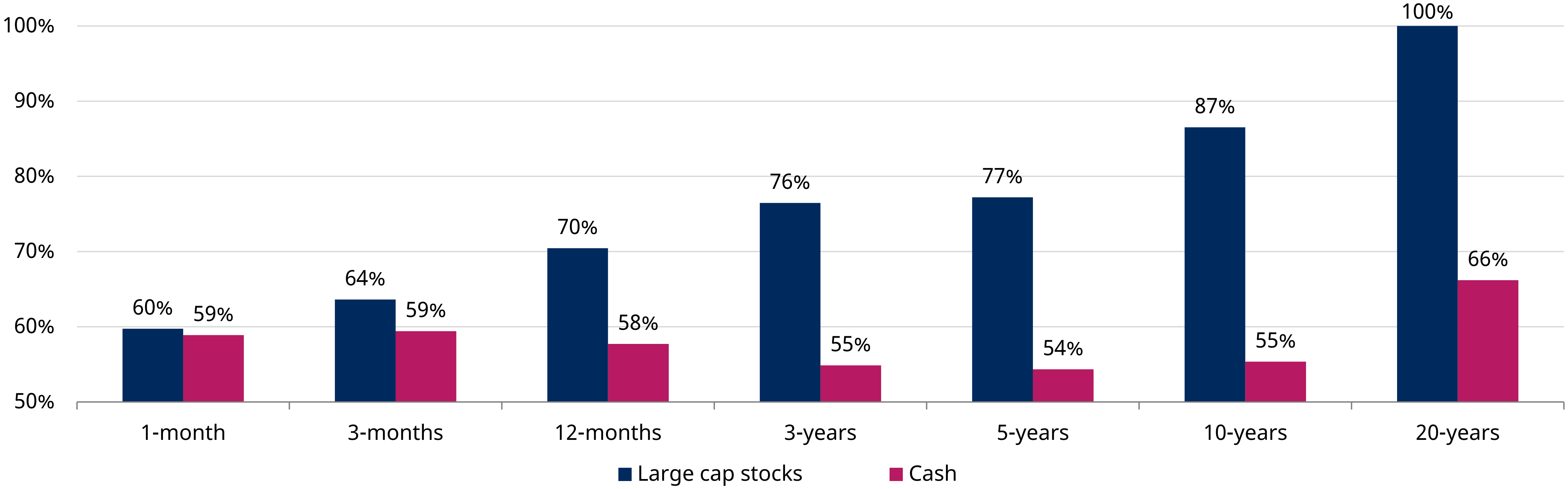
Is active management dead?

How to manage investments in this new world order

Stay invested

Markets are risky in the short run, less so in the long run

Percentage of time periods where stocks and cash have beaten inflation, 1926–2022



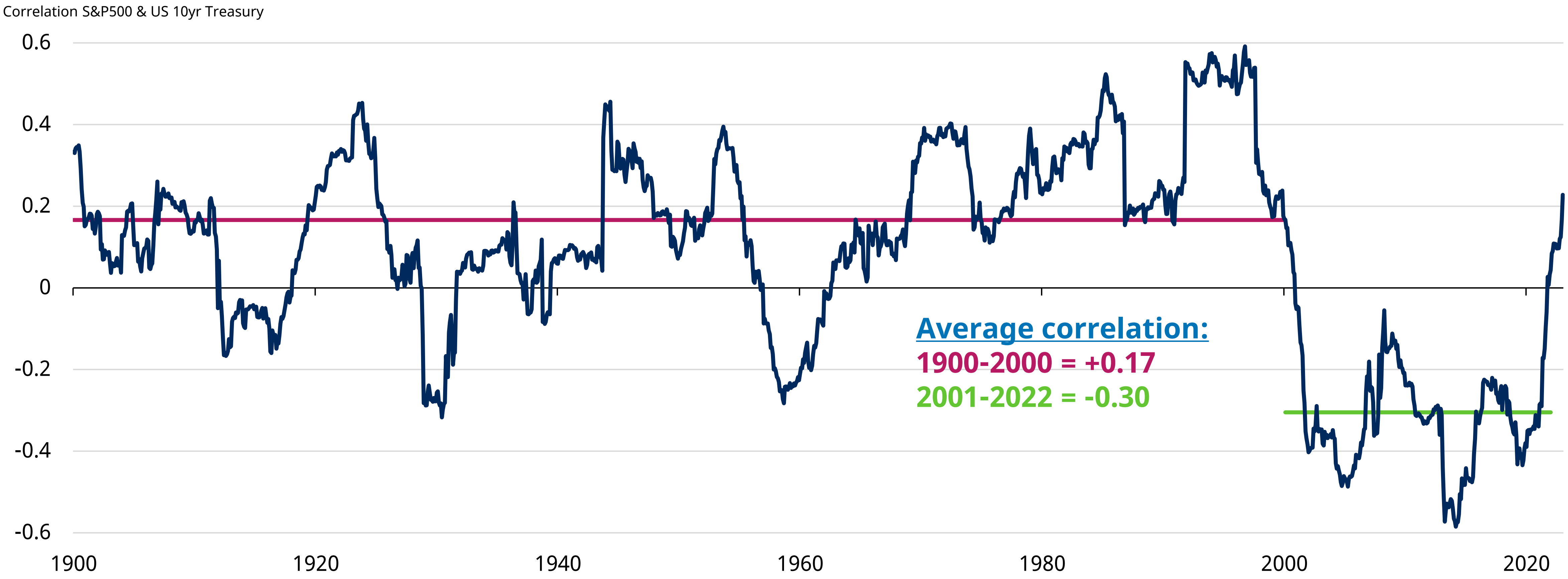
For every 20-year timeframe in the past 96 years, equities delivered inflation-beating returns

Past performance is not a guide to the future and may not be repeated.
Stocks represented by Ibbotson® SBBI® US Large-Cap Stocks, cash by Ibbotson® SBBI® US (30-Day) Treasury Bills. Data January 1926–December 2022 Source: Morningstar Direct, accessed via CFA institute and Schroders. Schroders Talking Point August 2023: '**Cash real returns after inflation remain negative even though rates have risen and the jump in inflation since early 2022 means that the value of cash is eroding at a faster pace than for most of the previous decade.'**

Strategic asset allocation

Ensure your SAA is designed for the future, not ten years ago

Equity-bond correlation not normally highly negative



Source: Bloomberg, Robert Shiller, Schroders, as of 31 December 2023. Rolling 5 year correlations of S&P500 and US 10yr Treasuries, monthly total return data.
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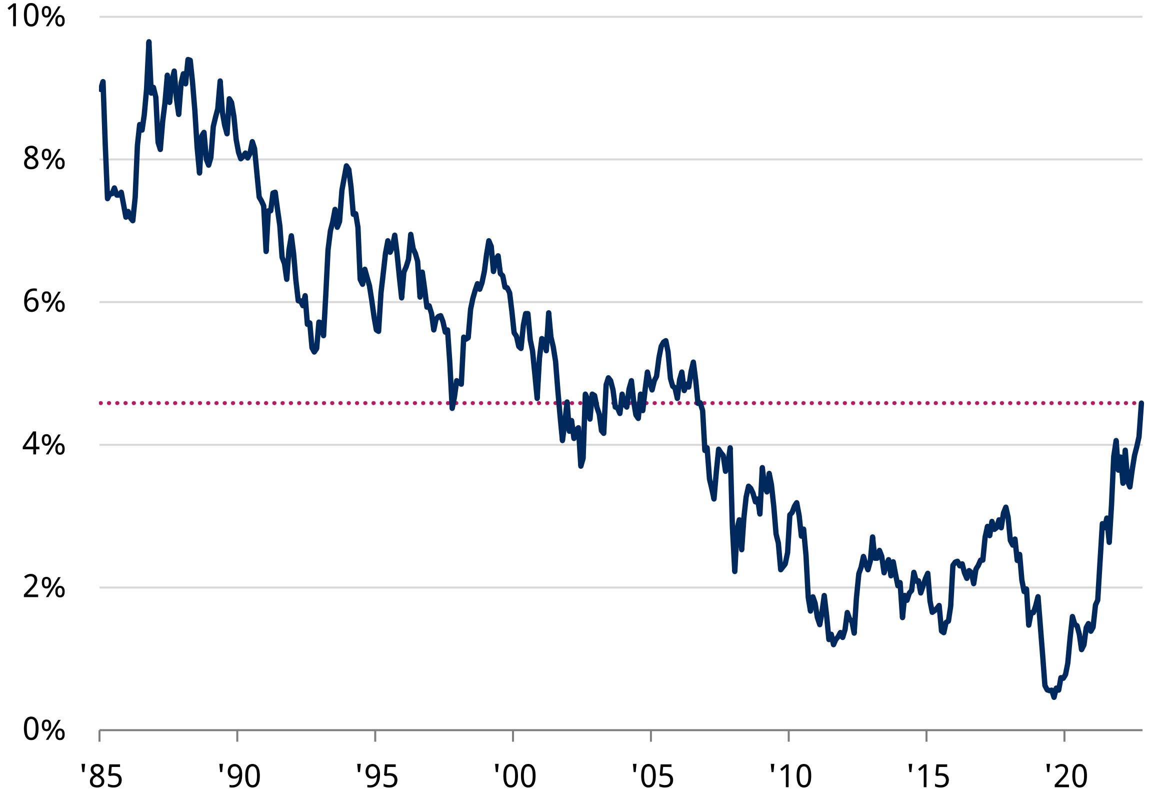
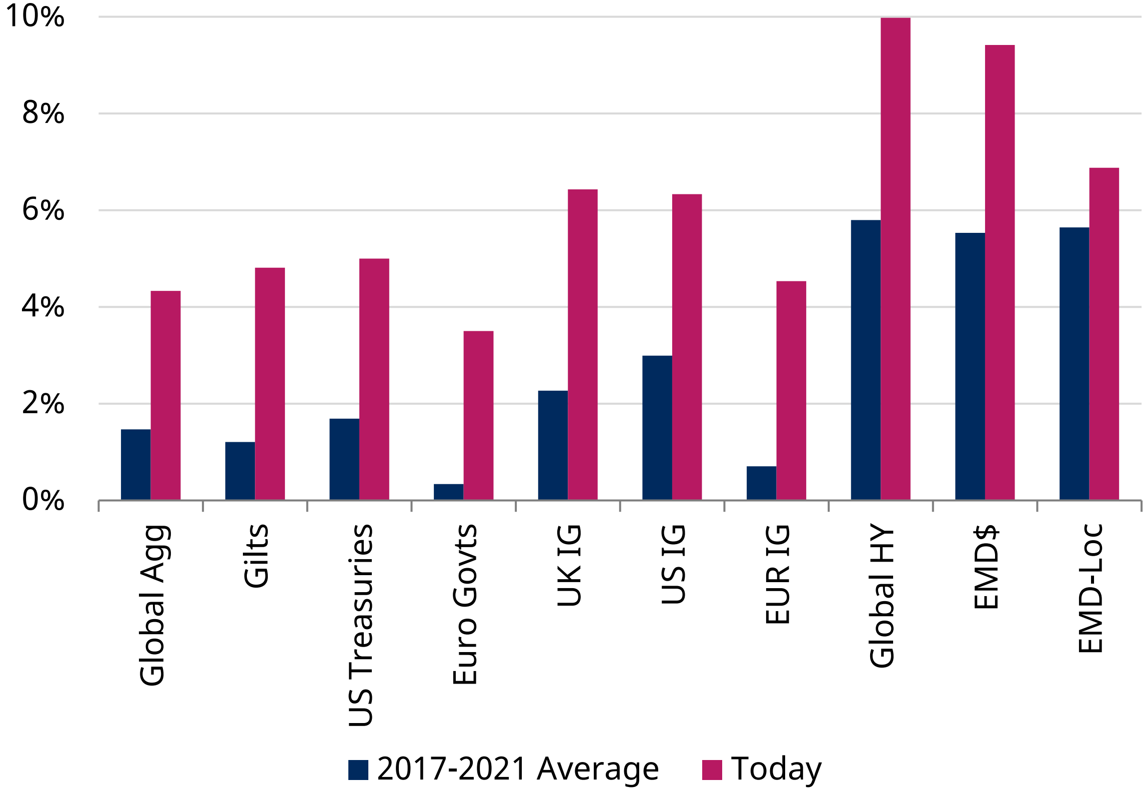
The role of bonds in portfolios

Should we now buy bonds for returns rather than diversification?

Higher expected returns for US 10yr Treasuries



Not just Treasuries – higher yields around the world



Source: LHS: Schroders 10 year return forecasts, as of 30 September 2023. RHS: Bloomberg, Schroders, as of 30 October 2023; Bloomberg Global Agg, FT Gilts, Bloomberg US Treasuries, Bloomberg Euro Treasuries, Bloomberg Sterling Corporates, Bloomberg US Corporates, Bloomberg Euro Corporates, Bloomberg Global High Yield, JP Morgan EMBI Global Diversified, JP Morgan GBI-EM Global Diversified; average of daily data 1 January 2017 to 31 December 2021. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Forecast may not be realised.

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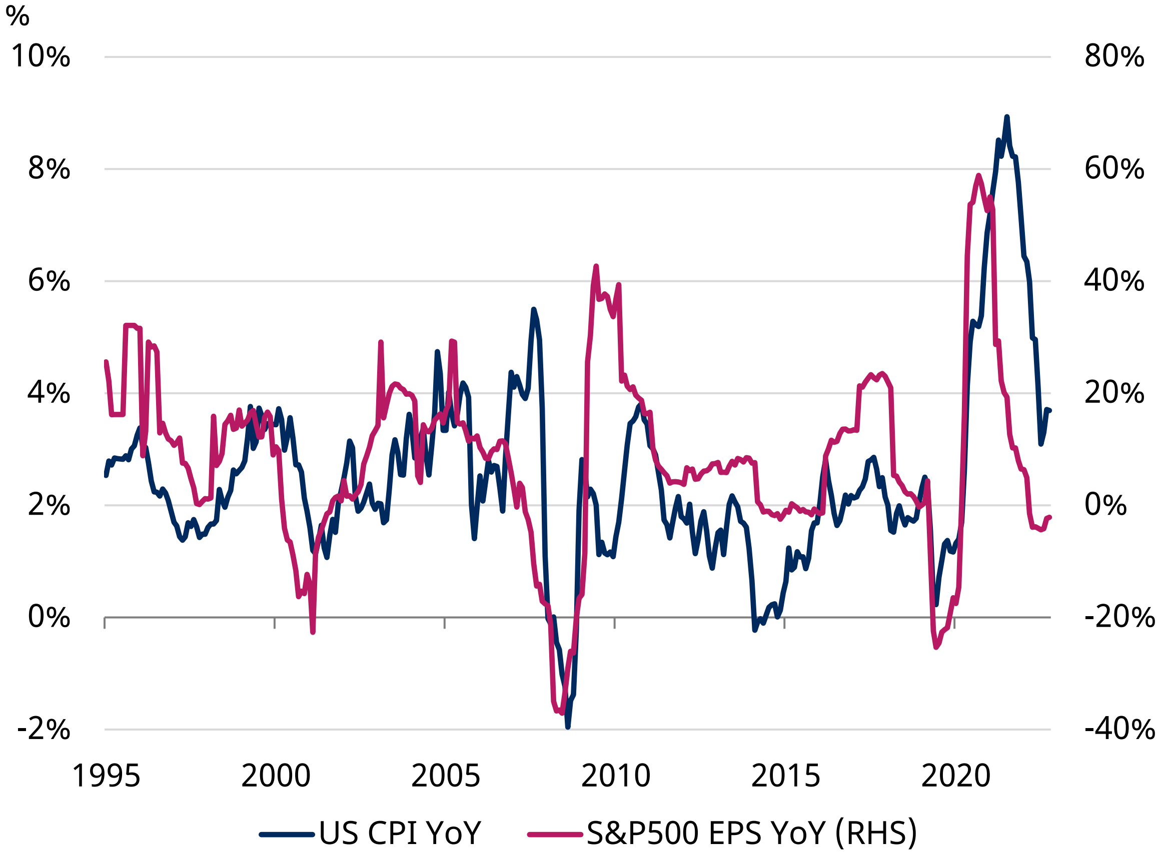
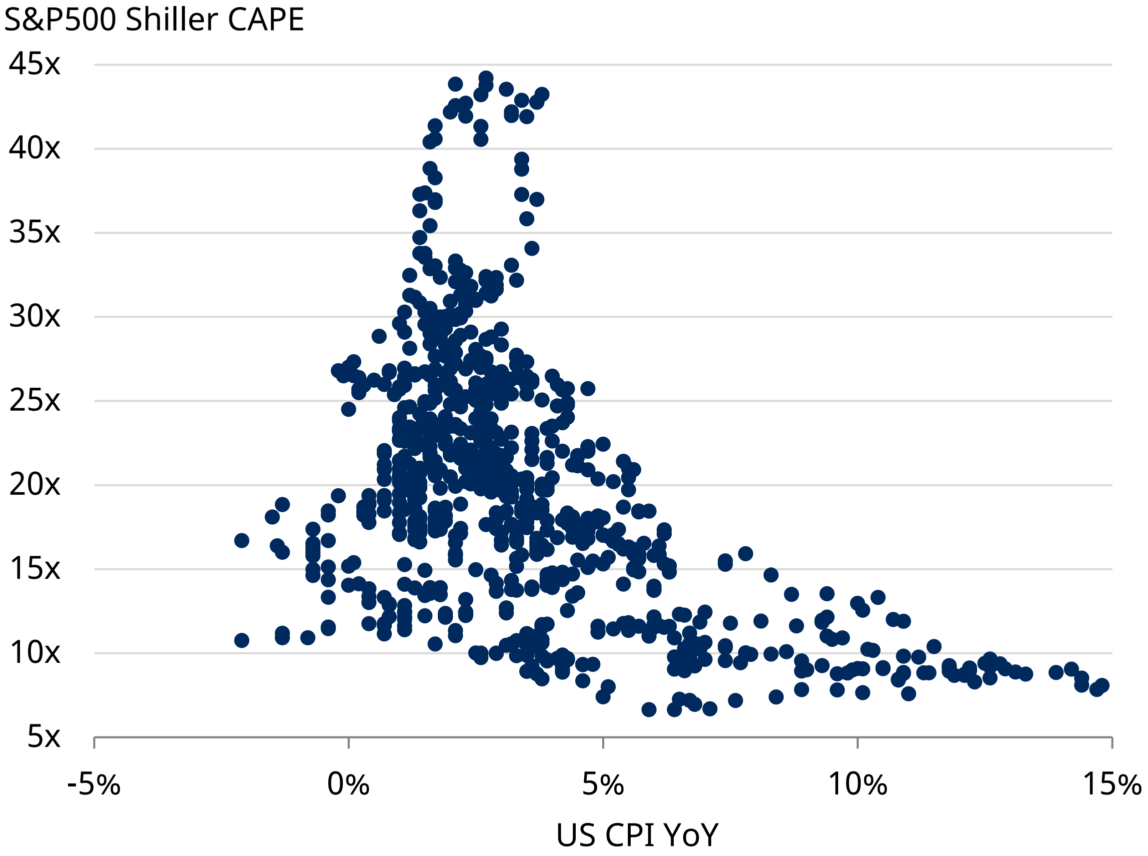
The role of equities in portfolios

Inflation tends to be good for earnings, but at what valuation cost?

Inflation normally boosts corporate profitability



But higher inflation associated with lower multiples



Source: Bloomberg, Robert Shiller, Schroders, as of 30 September 2023. RHS monthly data 31 January 1950 to 31 December 2020.
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The role of alternatives in portfolios

Uncorrelated strategies can add alpha and diversification

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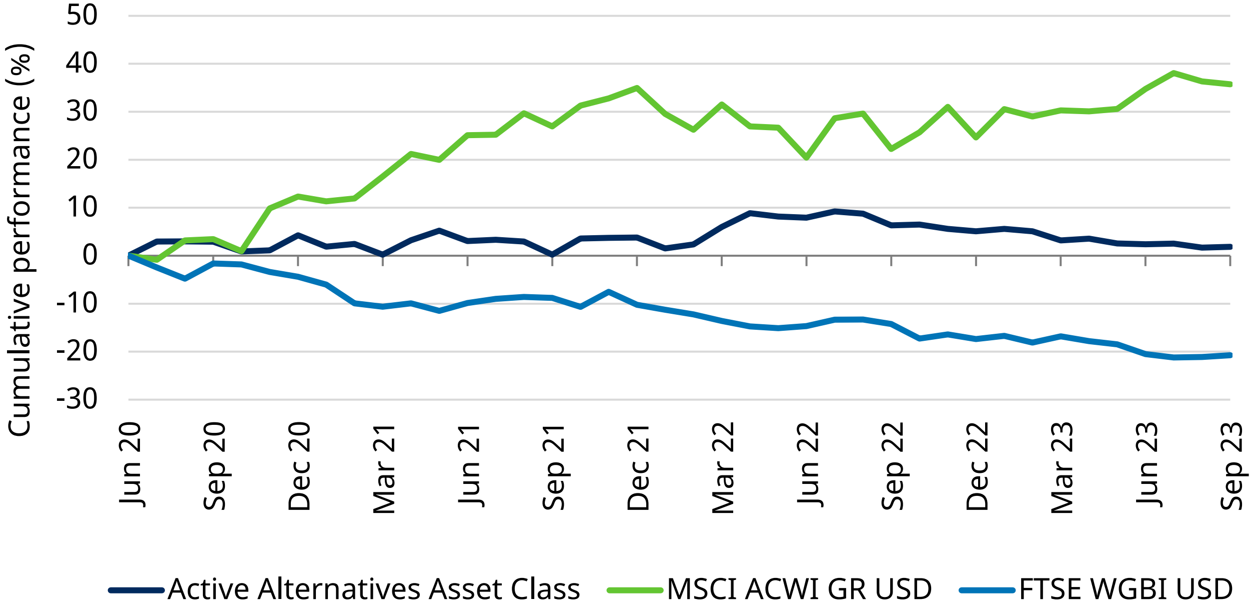
Less than half the beta of the equity market

Low volatility

Downside protection

Not market dependent

Performance relative to bonds and equity



	Q4 2022 – Q3 2023	Q4 2021 – Q3 2022	Q4 2020 – Q3 2021	Q4 2019 – Q3 2020	Q4 2018 – Q3 2019	Since Inception	30/06/2020 - 30/09/2023
Alternative asset class	-4.21	1.24	-0.44	-	-	1.85	

Source: Morningstar. Data as at 30 September 2023.
Calculated based on model portfolio returns net of costs. Cumulative returns apply to all periods. Model portfolio returns may vary from individual investor returns due to timings and cash flows.
Please note that due to the limited track record of our allocation to the alternative asset class as per the current mandate, we are unable to provide 5-year calendar returns.

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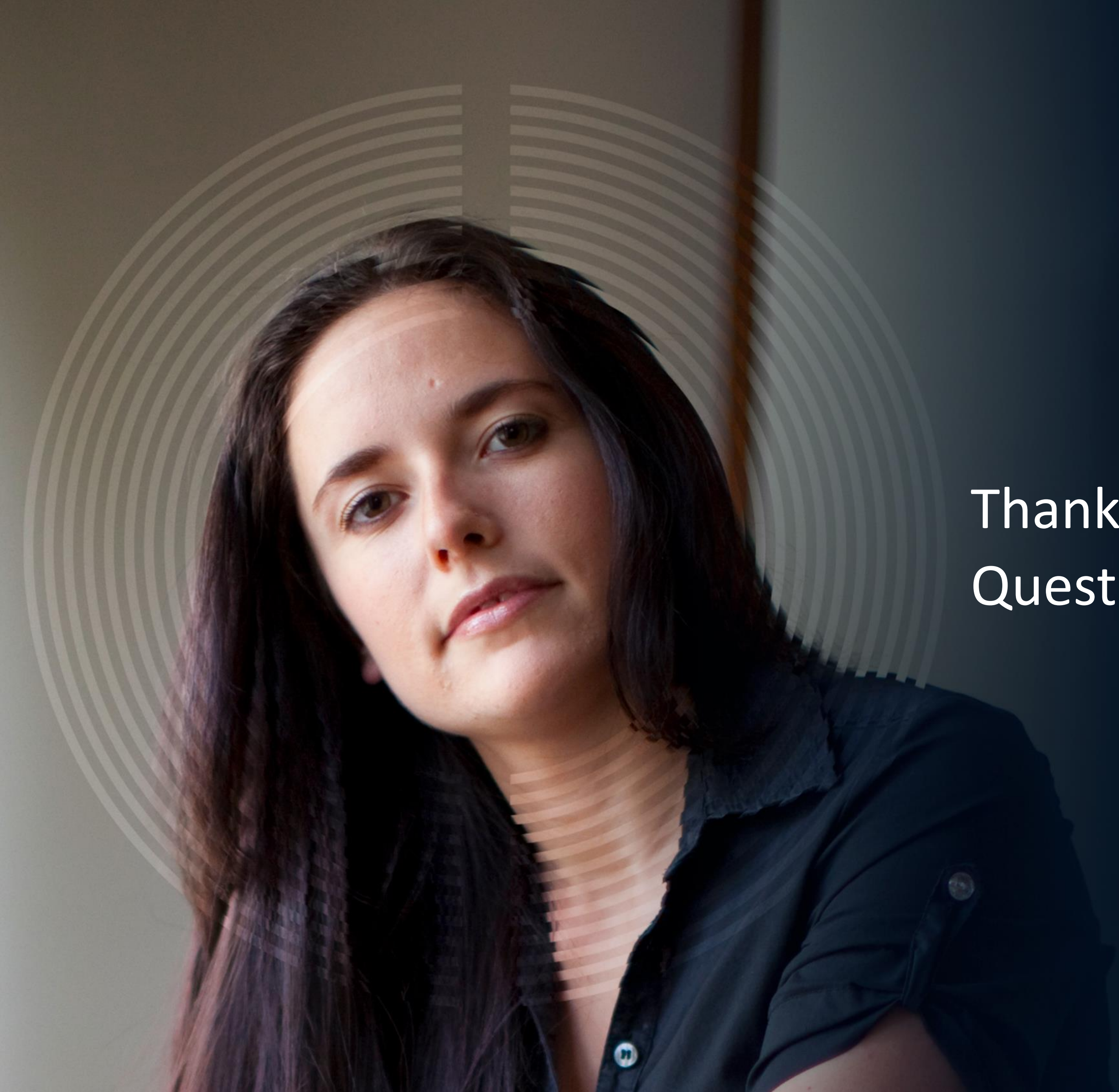

Thank you
Questions?

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