

Schroder Global Emerging Markets Fund

Performance overview

The fund outperformed the index by 0.61% during the month of May. Country allocation and stock selection were both positive.

The underweight positions to Saudi Arabia and India both which underperformed, added value. Conversely, the overweight positions to Brazil and Argentina which both underperformed, detracted.

Stock selection was positive in China (o/w Tencent Music Entertainment, AIA Group and Netease; u/w Alibaba) and Brazil (o/w Lojas Renner and Prio). It was negative in India (o/w Power Grid Corporation, Varun Beverages and Sun Pharmaceuticals) and Korea (o/w Kia Corporation; u/w Doosan Enerbility).

Market Summary

Emerging market (EM) equities rose during May, although the MSCI EM index lagged the MSCI World, as the potential for a de-escalation in trade tensions rose, following a temporary tariff agreement reached between US and China during the month. As a result, concerns about a US recession also eased. This combination was particularly beneficial for the index markets of Taiwan and Korea, both of which were supported by renewed investor optimism about artificial intelligence. South Africa and Mexico outperformed the index as currency strength and an interest cut in each market aided returns.

The UAE and Poland underperformed with the latter negatively impacted by political uncertainty ahead of a tightly contested presidential election. The result, announced in early June, saw the Law and Justice party's Karol Nawrocki narrowly claim victory. Despite the easing of tariff concerns, China lagged the broader index as did other BIC peers, India and Brazil. India's underperformance follows two months of strong returns in March and April, while Brazil's flat performance (in US dollar terms) occurred against a backdrop of a weaker local currency and another interest rate hike. Malaysia, Thailand and Saudi Arabia declined in US dollar terms with the latter impacted by a weaker earnings season and slowdown in government spending weighing on the market.

Positioning

We made the following changes to our country allocation targets:

In a post strategy meeting change, following the US-China temporary trade deal announcement, we moved from a small underweight to neutral in China. While China still faces macro headwinds, a strong policy backdrop is supportive, and the worst-case tariff scenario seems to have been avoided. We reduced our underweight to Korea. Although the market is sensitive to global growth and tariff risks, there is a potential for governance reform and market valuations are attractive. We moved to actual weight in Saudi Arabia, which reduced our underweight. The market is expensive but we have identified an attractive stock opportunity. We increased our overweight to our off-benchmark position in Argentina, as a result of bottom-up decisions. These changes resulted in a reduction in our cash position.

Actual asset allocation may differ depending on the specific product or portfolio.

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