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Schroder ISF* Emerging Asia

Fund Manager: Louisa Lo | Fund update: January 2025

Performance overview

- Emerging Asia ex-Japan stocks rose mildly in January, but underperformed other Asian and developed markets in aggregate. While a softer dollar was helpful, ongoing tariff risks as US President Donald Trump took office weighed on markets.
- Korea was the strongest index market as it rebounded from poor performance in December. Taiwan also produced positive returns and outperformed. China rose and did slightly better than the index, despite ongoing uncertainty about Trump's proposed tariffs on US imports of Chinese goods.
- India fell and underperformed owing to concerns about fading economic growth. Thailand, Malaysia and the Philippines also fell.
- The fund posted a negative return and slightly underperformed the benchmark over the month.

Drivers of fund performance

- At the market level, allocation contributed positively, especially the small off-benchmark exposure to Australia. Stock selection weighed mildly on returns, with weakness in China and Korea.
- At the sector level, selection was a slightly positive factor, particularly in materials.
- Regarding stock performance, the strongest returns came from the positions in **Newmont Corporation**, **Singapore Telecommunications** and **JD.com**.
- The weakest performers were the holding in **Swiggy**, the zero weighting in PDD Holdings and the underweight to **TSMC**.

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 amount originally invested.

Calendar year performance (%)

	Fund	Target	Comparator
2024	8.1	12.0	9.3
2023	1.8	7.8	1.6
2022	-21.2	-21.1	-21.4
2021	-2.3	-5.1	-3.9
2020	36.6	28.4	25.9
2019	19.9	19.2	19.2
2018	-10.8	-15.5	-17.1
2017	43.5	42.8	40.8
2016	10.3	6.1	3.6
2015	-7.3	-9.8	-7.2

Source: Schroders, as at 31 December 2023. Fund performance is net of fees, NAV to NAV with net income reinvested, USD A Acc shares. The fund's performance should be assessed against its target benchmark being to exceed the MSCI Emerging Markets Asia (Net TR) index and compared against the Morningstar Asia ex Japan Equities Category. The fund's investment universe is expected to overlap materially, directly, or indirectly, with the components of the target benchmark. The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the investment manager invests the fund's assets.

Outlook/positioning

- Risk appetite in Asian equity markets will likely continue to ebb and flow in response to US financial conditions and Trump's tariff policy. As the new trade war begins, the market generally expects higher inflation and upward pressure on the US dollar and interest rates. This, in turn, will put pressure on Asian currencies and reduce the room for manoeuvre of regional central banks, which are eager to cut interest rates to support domestic demand.
- In China, markets will likely continue to fluctuate on developments in US-China tensions. Domestically, 2025 will be a year for policy delivery. Given the persistent challenges of demand-supply imbalance and deflationary pressure, more policy support –

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- In Taiwan, the market will likely remain hostage to the performance of technology stocks, which dominate its indices. The recent release of DeepSeek's R1 added more uncertainty to the sector outlook as it raised questions about the necessity of massive AI infrastructure capex. Growth in the broader consumer technology supply chain also remains subdued, although the cost breakthrough by DeepSeek is expected to accelerate AI application for edge AI, which should be positive for the sector. We believe the Taiwan market will remain highly volatile in the near term. Outside of technology, talk of higher US tariffs on Asian imports further complicates the picture for Taiwan.
- Korea faces multiple challenges, including political uncertainty and a slowing economy. Potential US tariffs are also an issue given the economy's heavy reliance on exports. Nevertheless, tough market valuations and the weak currency should provide an easier path in 2025.
- Economic momentum in India has slowed due to disruptions from weather and last year's general election. This economic backdrop, coupled with stretched valuations, suggests that returns may disappoint in the near term. However, the longer-term potential in India remains very positive. Healthy domestic growth, geopolitical tailwinds, the scope to increase market share in global manufacturing at the expense of China, and steady domestic fund inflows are all positive factors.
- Across the rest of the region, ASEAN markets will likely be depressed by the stronger dollar and reduced expectations for rate cuts.
- In light of the diminishing hopes for more US rate cuts, as well as the increasing tariff risk, investors in Asia are likely to remain cautious in their positioning. This will only change, in our view, once there is more clarity on the details of Trump's trade policy and the Chinese authorities' policy stance in 2025.

Risk considerations

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

Derivatives risk – efficient portfolio management: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.

IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Onshore renminbi currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macroeconomic environment, investment objectives may become more difficult to achieve.

Stock connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

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