Schroders

Marketing material
for professional clients only

Schroder ISF* Emerging Asia

Fund Manager: Louisa Lo | Fund update: Q1 2024

Performance overview

– Emerging Asian ex-Japan equities rallied over the quarter on growing expectations that major global central banks will begin to cut interest rates in 2024.
– Taiwan was the strongest-performing index market as its technology stocks rose, particularly those with an AI angle. India and the Philippines also performed well.
– China was one of only two countries, along with Thailand, to produce negative returns, amid ongoing concerns about its fragile economic recovery, the stricken real estate sector and local-government debt.
– The fund posted a positive return, but mildly underperformed the benchmark over the quarter.

Drivers of fund performance

– At the market level, stock selection was a positive factor and was strongest in Taiwan, while weak in China. Allocation detracted from returns, however, largely due to the underweight to Taiwan.
– At the sector level, selection was mildly negative, with weak returns in financials and healthcare offsetting positive performances in industrials and real estate.
– Regarding stock performance, the strongest returns came from the fund's positions in **Prada**, **Phoenix Mills** and **Bank Mandiri**.
– The weakest performers were the holdings in **Sunny Optical Technology**, **WuXi Biologics** and **HDFC Bank**.

Portfolio Activity

– We purchased a stake in Korean power equipment maker **HD Hyundai Electric,** owing to positive trends in the transformer industry and limited competition. We added **ICICI Bank**, the second-largest private bank in India, due to its solid loan growth and sound asset quality. A further addition was **State Bank of India,** which has an undemanding valuation and is growing strongly.
– We took profits in **TSMC**, **MediaTek** and **Axis Bank**.

Outlook/positioning

– Despite the delay in interest-rate cuts from the major global central banks, sentiment towards equity markets remains benign as investors continue to discount a soft landing for the US economy. This 'goldilocks' scenario and the momentum behind large-cap technology stocks is providing a favourable backdrop for Asian markets.
– Indian equities have performed strongly in recent months. Valuations remain elevated in many sectors, so this positive outlook is well-discounted. We still see strong longer-term fundamentals in areas such as private-sector banks, healthcare and select consumer-related stocks, which remain core positions in regional portfolios.
– We are starting to see more corporate share buybacks and share purchases by the "national team" in China. At the same time, we are hopeful that the rampant divestment by foreign investors has finished. A meaningful recovery in the China market, however, requires more supportive economic fundamentals, of which there has been some evidence. We believe more policy support is needed for the housing market and to stimulate a strong and sustainable economic recovery.
– Aggregate valuations for regional equities are close to longer-term average levels. We remain very selective in our exposure, given the continued uneven nature of the recovery in the region, and disciplined about valuations.

Calendar year performance (%)

	Fund	Target	Comparator
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
2014	8.5	2.5	4.6

*Schroder International Selection Fund is referred to as Schroder ISF throughout

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.

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.

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.

Important information

Marketing material for professional clients only.

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the “Company”). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus.

Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time, but we will publish our intention to do so on our website, in line with applicable regulatory requirements.

For Luxembourg, these documents can be obtained in English at www.schroders.lu. For the UK, these documents can be obtained in English, free of charge, from the Facilities Agent Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU or at www.schroders.co.uk.

This fund does not have the objective of sustainable investment or binding environmental or social characteristics as defined by Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the “SFDR”). Any references to the integration of sustainability considerations are made in relation to the processes of the investment manager or the Schroders Group and are not specific to the fund.

Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. 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.

The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies, or funds.

Information herein is believed to be reliable, but Schroders does not warrant its completeness or accuracy.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy/ or on request should you not have access to this webpage.

A summary of investor rights may be obtained from https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/

For your security, communications may be recorded or monitored. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799.

Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.

Information for Switzerland: Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative.