Schroders

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Schroder ISF* Japanese Opportunities

Fund Manager: Ken Maeda | Fund update: May 2024

Performance overview

- The Japanese equity market experienced a moderate rebound in May, with the TOPIX generating a total return of 1.2%. The Nikkei 225 index continued to underperform compared to the broader market TOPIX, primarily due to the weakness of large-cap technology stocks. Despite some weakness in US economic indicators, the Japanese yen remained weaker against the US dollar.
- The fund continued to outperform the benchmark for the month.

Drivers of fund performance

- Despite negative impact sector allocation, stock selection generated a materially positive impact. Overall, value oriented market trend supported while small cap weakness hurt.
- The largest positive contribution came from financial stocks, Sumitomo Mitsui Financial Group, one of largest banking groups, and T&D Holding, an insurance company, upon the rise of Japanese yields. Relo Group, a small cap HR related service company, also continued to add value thanks to positive earnings prospects..
- The largest offsetting negative contributor was Nippon Shinyaku, a mid cap pharma, due to its negative news on drug pipelines. Starts Corporation, a small cap property company, also hurt due to concerns on yield hike in Japan. Not holding Disco Corporation and Hitachi also detracted performance.

Outlook/positioning

- There are multiple factors which weigh on investors' appetite for Japan, such as weaker earnings guidance, concerns on Yen appreciation, deterioration of macroeconomic sentiment.
- The long term story on Japan has not changed and the macroeconomic trend in Japan is expected to improve upon higher wage growth coming in next few months.
- Share buybacks is recording the highest figure during this quarter and Japanese companies are truly transitioning to better governance structures with improved capital policy.
- The market concentration in Japan seems to have eased and we see more fundamental driven stock price moves during and after earnings season. However, the small cap remains subdued and we need to see improvement in investors sentiment and macroeconomic trend for domestic demands.

Calendar year performance (%)

Year	Fund	Target
2023	+27.3	+27.8
2022	+2.0	-2.9
2021	+12.7	+12.4
2020	+0.3	+7.0
2019	+16.7	+17.7
2018	-23.2	-16.3
2017	+28.1	21.8
2016	+1.7	-0.0

Source: Schroders, net of fees, NAV to NAV with net income reinvested. C Acc share class. 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.
Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark. Please see the respective fund factsheets for the performance of other share classes.

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

Risk considerations

Concentration risk: The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

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.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Currency risk / hedged share class: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Derivatives risk – efficient portfolio management and investment purposes: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

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.

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 macro economic environment, investment objectives may become more difficult to achieve.

Important information