Schroders

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Schroder ISF* Frontier Markets Equity

Fund Managers: Tom Wilson and Rami Sidani | Fund update: September 2024

Performance overview

- Frontier market (FM) equities, as measured by the custom MSCI Frontier Emerging Markets (EM) Index*, rose in September, but materially underperformed other EM in aggregate.
- Most markets gained. Sri Lanka, where a leftist outsider, Dissanayake, won the first presidential election since 2022's economic crisis, delivered a double-digit return. Peru and Iceland were also strong.
- Kazakhstan was the weakest market, dragged down by index heavyweight Kaspi, which was hit by a short seller report.
- The fund produced a positive return but underperformed its benchmark over the month.

*MSCI Frontier Emerging Markets (FEM) Index Net TR with Emerging Markets capped at 10%.

Drivers of fund performance

- Country allocation detracted from returns, largely due to the overweight to Kazakhstan, while the underweights to Iceland and Morocco also weighed on performance. The off-benchmark position in the UAE was a notable contributor, however.
- Stock selection was positive, particularly in Egypt (overweight **TMG Holding**) and Kazakhstan (overweight **Halyk Savings Bank**).
- Conversely, selection was negative in Morocco (overweight **Attijariwafa Bank**).

Outlook

- Economic data in the US remains resilient and we continue to anticipate a soft landing. This, along with the US Federal Reserve's looser monetary policy and dollar weakness, should support FM.
- The global trade cycle has also underpinned FM, but it may soften as we move into 2025. The technology cycle is positive, though it remains uneven and somewhat narrow given AI-related leadership.
- The outlook for FM inflation is less clear. Following significant falls, the easy wins from lower food and energy prices look to be over, and aggregate inflation has stabilised in recent months. Real rates are above the historical average in many FM but the combination of uncertainty in the external outlook, and in some cases concerns around domestic inflation, could drive further caution from FM central banks. The potential for near-term policy easing may remain constrained, but this may change depending on momentum in the Fed's cutting cycle.
- FEM valuations are reasonably attractive, trading below long-term averages in terms of both trailing price-to-earnings and price-to-book ratios.

Calendar year performance (%)

Year	Fund	MSCI Frontier Markets Net TR
2023	25.0	11.6
2022	-13.4	-24.4
2021	28.5	20.4
2020	0.6	1.4
2019	13.6	18.0
2018	-20.1	-16.4
2017	24.9	31.9
2016	12.8	2.7
2015	-17.5	-14.5
2014	4.6	6.8

Source: Schroders, as at 31 December 2023. Net of fees, bid-bid, with net income reinvested, USD A Acc. Please see factsheet for other share classes. Index source: MSCI, as at 31 December 2023.

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. Please see the respective fund factsheets for the performance of other share classes.
Please note that the fund's benchmark was changed on 31 July 2021. The past performance in the above table is based on the fund's benchmark (Target benchmark: MSCI Frontier Markets Index (Net TR)) in place prior to this date. Going forward, this table will show past performance from this date based on the new benchmark (Target benchmark: MSCI Frontier Emerging Markets (FEM) Index (Net TR) with Emerging Markets capped at 10%).

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

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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, otherwise known as currency 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: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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 more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

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, meaning investors may not be able to have immediate access to their holdings.

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 macroeconomic environment, investment objectives may become more difficult to achieve.