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Schroder ISF* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: Q1 2024

Performance overview

- The Hong Kong market fell over the quarter and underperformed other Asian markets. Concerns about the fragile local economic recovery and mainland China's stricken real estate sector and local-government debt proved to be headwinds.
- Basic materials was the best-performing sector by far, and one of only three to rise.
- The energy sector was the worst performer, down just over 34%. Financials and real estate also plunged.
- The fund produced a negative return, but materially outperformed the benchmark over the quarter.

Drivers of fund performance

- At the sector level, stock selection was very strong, particularly in financials and industrials. The overweight to consumer discretionary and the underweighting of financials also supported returns.
- At the market level, the off-benchmark weighting in mainland China-listed stocks contributed, while selection was notably positive in Hong Kong.
- The best-performing stock positions were **Prada** and **Samsonite International**, and the underweight to **AIA Group**.
- The weakest returns came from our holdings in **WuXi AppTec**, **Hang Lung Properties** and **WuXi Biologics**.

Portfolio activity

- We purchased **PetroChina,** owing to its high dividend yield, which should afford the stock some downside protection.
- We sold **Link Real Estate Investment Trust** as weak domestic consumption in Hong Kong continues to weigh on the business outlook.

Outlook/positioning

- Hong Kong's economy is facing cyclical and structural challenges. Worries about the strength of domestic consumer spending are mounting, as the recovery in outbound travel outpaced inbound mainland visitors. The weak economy in China also undermined the spending power of mainland visitors in Hong Kong. Externally, heightened geopolitical tensions and high interest rates have weighed on demand and asset prices.
- Owing to high interest rates and the weak macroeconomic environment, the property market in Hong Kong remained sluggish. In light of the decline in property prices, the government cancelled all counter-cyclical measures for residential properties in the 2024-25 budget released in late February. There is also hope that US inflation will head lower and interest rates will gradually come down in the second half. If we were to see a peak in the rate cycle, there is scope for a property market recovery in Hong Kong.
- Portfolio construction remains focused on keeping a healthy level of diversification across growth and value ideas. We hold quality stocks that show value at current levels, and longer-term growth ideas that are less cyclically exposed.

Calendar year performance (%)

Year	Fund	Target	Comparator
2023	-15.1	-12.7	-12.8
2022	-12.5	-7.0	-15.1
2021	-11.6	-4.1	-11.6
2020	21.2	7.5	11.4
2019	16.1	11.8	12.9
2018	-14.3	-10.2	-12.8
2017	50.5	36.3	40.7
2016	0.4	4.1	0.6
2015	-5.1	-4.3	-5.0
2014	4.2	2.2	1.6

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD A Acc share class, as at 31 December 2023. The fund's performance should be assessed against its target benchmark being to exceed the FTSE Hong Kong (Net TR) index and compared against the Morningstar Hong Kong Equity Category. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark. The comparator benchmark is only included for

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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.

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

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.

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.

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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