

Schroder ISF* Japanese Equity

Fund Manager: Kazuhiro Toyoda | Fund update: October 2025

Performance overview

- The Japanese equity market recorded another strong month, with the TOPIX Total Return up 6.2% and the Nikkei 225 up 16.6%. The gains were mainly led by a limited number of AI and defence related names.
- The fund underperformed against the benchmark amidst highly concentrated market rally.

Drivers of fund performance

- While sector allocation effect was limited across sectors, underweight in Services and Land Transportation, as well as overweight in Electric Appliances helped relative performance of the fund, while overweight in Insurance, Chemicals, and Other Financing Business detracted the performance.
- With regards to the stock selection, the largest individual positive contribution came from IBIDEN, a mid-cap IC package maker, as the company's shares were announced to be a part of Nikkei 225 Index. Japan Electronic Materials Corporation, a small-cap semiconductor testing components maker, continued to add value as the shares gained momentum, and Mitsubishi Electric, a large-cap electronic equipment manufacturer, also contributed positively as the policy expectations for the new administration boosted the company's shares.
- Conversely, the performance was notably affected by the strengths in generative-AI and semiconductor related names, as the largest offsetting negative impacts came from not holding Hitachi, followed by underweight in SoftBank Group and not holding Advantest.

Outlook/positioning

- The Japanese equity market extended its rally in October, supported by several developments. Positive headlines from the U.S. pointing to sustained AI demand lifted related Japanese names, including SoftBank Group and suppliers of semiconductor equipment and optical components.
- Domestically, a series of political surprises—including Takaichi's victory in the Liberal Democratic Party (LDP) leadership contest and a coalition shift

from Komeito to the Japan Innovation Party (JIP) — culminated in her election as prime minister. Markets interpreted the new leadership and coalition as signalling greater political stability and a policy focus on defence and digital priorities, including AI, boosting related shares.

- On monetary policy, the Fed cut its policy rate by 25 basis points, while the BoJ left rates unchanged. Both moves were widely expected and had limited impact on equities.
- Despite improved risk appetite, gains were narrowly concentrated in stocks linked to generative AI and defence. Valuations for these leaders have reached elevated levels, and overall market metrics now sit at the upper end of historical ranges, limiting further re-rating potential. The rally's narrow breadth and richer valuations underscore the need for selectivity and a focus on earnings durability.
- Long-term structural tailwinds—especially corporate governance reform—remain intact. We favour companies with strong fundamentals and improving ROE, offering alpha opportunities for active managers.

Calendar year performance (%)

Year	Fund	Target
2024	+13.6	+20.0
2023	+20.1	+27.8
2022	-4.2	-2.9
2021	+11.1	+12.4
2020	+6.4	+7.0
2019	+16.5	+17.7
2018	-16.0	-16.3
2017	+25.4	+21.8

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.

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 shareclass: 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.

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