Schroders

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# Schroder ISF* Japanese Equity

**Fund Manager: Kazuhiro Toyoda | Fund update: January 2025**

## Performance overview

– The Japanese equity market showed weakness in the first half of the month but recovered in the second half, finishing January with a slightly positive return of +0.1% for the TOPIX Total Return in yen terms. The Nikkei 225 declined by 0.2%, experiencing higher volatility due to sharp movements in large-cap technology stocks and weak performance in large-cap exporters.

– The fund turned to underperform against the benchmark for the month of January.

## Drivers of fund performance

– The fund underperformed against the benchmark for the month of January. The relative outperformance of large-cap stocks had negative impact to our portfolio due to its small cap overweight, in addition to market reversal, as some of the holdings experiences a sharp reversal in stock prices.

– On sector allocation, our overweight in Insurance, Chemicals, and Other Financing Business contributed to the performance negatively, while our underweight in Wholesale Trade and not holding Foods, added value.

– The largest individual negative contributor from Musashi Seimitsu Industry, a small cap auto parts maker, following a quick turnaround in investor sentiment on AI-related names on the back of emerging headlines regarding "Deepseek". Not holding Nintendo and overweight in Tokio Marine Holdings hurt the performance as well.

– On the other hand, the largest positive contribution came from not holding Toyota Motor. Among stocks held, Sumitomo Realty & Development, and Harmonic Drive Systems, a robotics component maker, also performed solidly.

## Outlook/positioning

– Despite concerns and uncertainties regarding comprehensive issues including the introduction of tariffs by the Trump administration, fluctuations in the Japanese yen, and monetary policy outlook both in Japan and the U.S., the underlying fundamentals of the Japanese equity market remain strong, exhibited by transition from deflation to inflation and corporate governance reform.

– From a macroeconomic perspective, early indications from the Shunto spring wage negotiations points to potential of strong wage increase in 2025. We are constructive on a recovery in consumption on the back of potential real wage growth, as consumption recovery is one of the most critical missing components in Japan's economic growth.

– Initial results of December-quarter earnings suggest modest improvements from a relatively weak September-quarter. This bodes well for earnings growth in 2025, particularly in combination with a potential recovery in domestic consumer spending. Combined with corporate governance progress, we believe resulting ROE improvements and increased shareholder returns are supportive for the Japanese equity market.

## 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 |

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

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.

## Important information