

Schroder ISF* Japanese Equity

Fund Manager: Kazuhiro Toyoda | Fund update: March 2025

Performance overview

- After showing some recovery during the month, the Japanese equity market experienced a sharp sell-off toward the end of the period, ultimately closing with a marginally positive return of +0.22% for the TOPIX Total Return in yen terms. The Nikkei 225 declined by -4.14%, including an approximate -0.8% impact from ex-dividend adjustments, underperforming TOPIX due to weak performance in large-cap stocks, particularly in the technology and exporter sectors.
- The fund outperformed against the benchmark for the month of March.

Drivers of fund performance

- While sector allocation effect was marginally positive, the main contribution came from stock selection. The relative outperformance of small-cap stocks was also a tailwind to our portfolio.
- On sector allocation, our underweight in Whole sale Trade and Foods, combined with overweight in Information & Communication impacted the relative performance negatively, while our overweight in Insurance, Real Estate, and Banks have contributed positively.
- The largest individual positive contributor came from Mitsubishi Electric, a large-cap electronic equipment manufacturer, as the share price gained momentum as investors started to build confidence for its defence business. Sumitomo Realty & Development, a large-cap real estate company, also added value thanks primarily to the deadline regarding potential investment from an activist fund. Additionally, not holding some of the large-cap names such as Hitachi and Nintendo also contributed positively to the relative performance.
- On the other hand, the largest detractor was Harmonic Drive Systems, industrial robot parts manufacturer, as the share price went through correction due primarily to profit-taking activities from investors. Not holding some of the large-cap

names such as Mitsubishi Heavy Industries and Mitsubishi Corp have also hurt the performance.

Outlook/positioning

- The proposed tariffs by the Trump administration have significantly impacted the global equity market. For Japan, these tariffs pose clear downside risks to exports and could contribute to a broader global economic slowdown. Additionally, yen appreciation against the U.S. dollar and falling commodity prices could hinder Japan's transition from deflation to inflation and undermine the Bank of Japan's (BOJ) monetary policy normalization.
- Despite these challenges, several factors support the Japanese economy and equity market. Initial results from the Shunto (spring wage negotiations) indicate solid wage growth, which should bolster consumer spending and encourage price increases in line with rising wages. This could sustain economic growth and the shift from deflation to inflation. Additionally, ongoing corporate governance reforms are driving structural improvements in return on equity (ROE) and enhancing shareholder value.
- Following the significant share price correction after the announcement of reciprocal tariffs, the valuation of Japanese equities has declined to the lower end of their historical range. The Japanese equity market is likely to experience a tug-of-war between headwinds and tailwinds, with high volatility expected. However, this environment offers compelling opportunities for active investors, with a focus on distinguishing winners from losers based on corporate earnings strength.

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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