

Schroder ISF* Japanese Equity

Fund Manager: Kazuhiro Toyoda | Fund update: December 2024

Performance overview

- The Japanese equity market gained momentum in December, generating a return of 4.0% for the TOPIX Total Return in yen terms. The strength of the US market, along with the weakness of the yen against the dollar, supported the Japanese market, particularly benefiting large-cap exporters.
- The fund continued to outperform the benchmark for the month. However, due to the Fund's pricing policy which incorporates Fair Value adjustment, the Fund's month end NAV was materially downward revised, and therefore, the monthly return was also decreased.

Drivers of fund performance

- The large cap driven rally during the month had slightly negative impact to our portfolio due to its small cap overweight, however, strong contribution from stock selection more than offset. Sector allocation also had positive impact thanks to our overweight position in auto sector and underweight position in defensive sectors.
- The largest individual positive contributor for two consecutive months was Musashi Seimitsu Industry, a small cap auto parts maker, thanks to their improved earnings growth prospects. Auto related stocks, Toyota Industries and Suzuki Motor, also added value upon strength of auto sector.
- On the other hand, the largest negative contribution came from not holding Toyota Motor. Among stocks held, Shin-Etsu Chemicals, a large cap chemicals, and Sumitomo Forestry, a housing maker, also detracted due to their earnings weakness.

Outlook/positioning

- While the Japanese market has begun the year of 2025 with a somewhat lacklustre state, corporate earnings are expected to be solid on the back of yen weakness, ongoing improvement in domestic demand, offsetting some of the impacts from accelerated cost increases.
- Further improvement in Return on Equity (ROE) remains to be the key, as Japanese companies are coming out of prolonged deflationary period. A significant number of Japanese companies still remain cross-shareholding structure, which is expected to unwind further during 2025.
- Despite subdued investor sentiment towards Japan so far in early 2025, we remain optimistic about the Japanese equity market based on our expectations for earnings growth, improvement in ROE, and increased shareholder return. The valuation level is considered fair to modestly attractive compared to the historical range of the Japanese equity market, further supporting our constructive view on the 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

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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