

Schroder ISF* Global Emerging Market Opportunities

Fund managers: Tom Wilson and Nicholas Field | Fund update: March 2024

Performance overview

- Emerging market (EM) equities advanced in March, although the MSCI EM index lagged the MSCI World.
- The Latin American markets of Peru, Colombia and Mexico were the among top performers in the month, driven by strength in the copper price and monetary policy loosening.
- Asia, Taiwan and Korea performed well as technology stocks delivered strong returns due to optimism about the semiconductor cycle and enthusiasm for AI.
- China underperformed as geopolitical tensions with the US resurfaced, while India also lagged the index.
- Brazil produced a negative return, even as its central bank cut policy rates again. Greece and Hungary also fell, while Egypt was the weakest performer, owing to a currency devaluation of approximately 35%.
- The fund recorded a positive return and outperformed the MSCI EM Index.

Drivers of fund performance

- Among our core markets, we benefited from positive stock selection in Taiwan (off-benchmark **Lotes**), Brazil (overweight **Suzano**, off-benchmark **Nu Holdings**) and China (overweight **CATL** and **Tencent**), although the overweight to Brazil detracted. Chile had a broadly neutral impact on returns while in Greece, both country allocation and stock selection (overweight **Eurobank**) were negative.
- Regarding our non-core markets, positions in Korea (overweight **Samsung SDI**) and Kazakhstan (off-benchmark **Kaspi**) added value, while Poland (overweight **LPP**) detracted from returns.

Outlook

- The outlook for the global economy has improved, underpinned by the US. Despite upward revisions to growth, inflation remains on a downward trajectory and a cut in interest rates by the Federal Reserve is still anticipated in June, although the key risk is that it gets delayed further.
- Monetary policy easing in certain EM countries continues to progress, largely within EM ex-Asia, where real rates are higher. The global trade cycle is expected to improve this year and should be positive for EM.

- There has been a cyclical pick-up in global trade, led by inventory restocking, but there is a risk its impact is muted due to Chinese excess capacity and competition.
- In China, we expect stimulus to remain incremental. Valuations are cheap, sentiment remains depressed, the outlook is weak and geopolitical tensions with the US persist.
- Aggregate EM valuations are broadly in line with the historical median on a 12-month forward price-earnings and price-book basis, and are outright cheap based on dividend yield. The discount to developed markets (DM) remains wide, and close to the largest gap over the past 20 years.
- The main risks to the outlook stem from uncertainty around the timing of DM monetary policy easing. Geopolitics is a further area to monitor, given the conflicts in Ukraine and the Middle East, as well as US-China tensions. There are a number of EM elections remaining this year, including in India, Mexico and South Africa, as well as the crucial US vote in November.

Calendar year performance (%)

Year	Fund	MSCI Emerging Markets Net TR
2023	9.2	9.8
2022	-21.2	-20.1
2021	-4.9	-2.5
2020	21.6	18.3
2019	29.8	18.4
2018	-16.4	-14.6
2017	38.6	37.3
2016	8.6	11.2
2015	-13.9	-14.9
2014	-1.6	-2.2

Source: Schroders, as at 31 December 2023. Net of fees, bid-bid, with net income reinvested, USD A Acc. Please see factsheet for other share classes. Index source: MSCI, as at 31 December 2023. 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. Please see the respective fund factsheets for the performance of other share classes.

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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 share class: 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.

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.

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.

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