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Schroder ISF* Taiwanese Equity

Fund Manager: Louisa Lo | Fund update: Q4 2024

Performance overview

- The Taiwanese market produced a positive return during the fourth quarter owing to ongoing optimism about the technology sector, specifically AI-focused companies.
- The Federal Reserve (Fed) cut interest rates by 25 basis points at its December meeting but indicated that ongoing persistent inflation may mean there are fewer cuts in 2025 than previously anticipated. The dollar and US bond yields rallied, creating further pressure on Chinese markets.
- The fund produced a negative return over the period and underperformed the benchmark index.

Drivers of fund performance

- Poor stock selection was the main factor behind the fund’s negative relative returns. It was notably weak in information technology and consumer discretionary.
- Sector allocation had a mildly positive effect, largely due to the zero weighting in materials.
- On a stock basis, the top-performing positions were **Chunghwa Precision Test Technology**, **MediaTek** and **Advanced Energy Solution**.
- The weakest-performing positions were the underweight to **TSMC**, and the holdings in **Merida Industry** and **Pegavision**.

Portfolio activity

- We bought a stake in **King Yuan Electronics** as a recovery in demand for new AI graphic processing units, smartphone systems on a chip, and non-AI semiconductors is expected to fuel the company’s growth. We added **Advanced Energy Solution** as the increasing penetration of battery back-up units supports solid revenue/profit growth over the long term. A further addition was **ASMedia Technology** as the company has gained market share with key customers, which provides visible growth in 2025.
- We sold our stake in mature node foundry **UMC,** which faces increasingly intense competition. We exited Giant Manufacturing as we now prefer other bike supply-chain stocks. Finally, we trimmed CTCI due to prolonged margin pressure at the company.

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.

Calendar year performance (%)

Year	Fund	Target	Comparator
2024	11.4	23.3	14.0
2023	26.2	31.7	38.6
2022	-31.1	-26.8	-30.5
2021	29.8	29.0	31.5
2020	29.1	35.6	30.0
2019	29.9	32.2	28.2
2018	-11.4	-7.9	-11.4
2017	26.6	29.5	28.6
2016	13.6	17.8	13.2
2015	-1.1	-10.4	-8.2

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. A Acc share class, as at 31 December 2024. The fund's performance should be assessed against its target benchmark being to exceed the TAIEX Total Return index and compared against the Morningstar Taiwan Equity Category. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark. The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the investment manager invests the fund's assets.

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 fact sheets for the performance of other share classes.

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

Outlook/positioning

- The Taiwanese equity market produced another year of good returns in 2024, propelled by the exceptional performance of the technology sector, which continued to ride on the AI theme throughout the year.
- Looking ahead, the return of Donald Trump as US president is likely to bring about greater uncertainty to emerging markets, given tariff threats, higher inflation risks and upward pressure on the dollar and interest rates. Taiwan, as an export-oriented economy, may see a growth slowdown resulting from the uncertainty surrounding global trade and geopolitics. While the market continues to expect AI-related technology sector activity to stay on a general upward trend in the coming quarters, the recovery in other non-AI technology areas may take more time to materialise. The semiconductor supply chain could also face greater scrutiny and potential US tariffs under Trump's administration.
- Technically, market valuations, especially in the technology sector, have become very stretched after years of strong performance. This is likely to lead to increased volatility in the market moving forward. The uncertainty surrounding the global growth outlook, the Fed's rate-cutting path and the sustainability of heavy AI capex spending will be the primary drivers of volatility in this export-oriented market.
- We will continue to maintain a relatively balanced portfolio and carefully add back to preferred technology stocks if valuations become more attractive. However, we will remain selective in our investments and prefer only stocks that are globally competitive with strong pricing power and earnings visibility.

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.

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.

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 macroeconomic environment, investment objectives may become more difficult to achieve.

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