

## Schroder ISF\* Taiwanese Equity

Fund Manager: Louisa Lo | Fund update: Q1 2024

## Performance overview

- The Taiwanese market performed well, beating most other Asian markets over the period.
- Taiwan's technology sector benefited from pronounced strength in demand for technology stocks worldwide, especially those related to AI. Investors' hopes that major global central banks will soon begin to cut interest rates also underpinned sentiment.
- The fund produced a positive return over the quarter but underperformed the benchmark index.

## Drivers of fund performance

- Weak stock selection was the principal factor behind the negative relative returns. It was notably poor in information technology, while positive in financials and materials.
- Sector allocation had a neutral effect. While the underweight exposure to materials contributed to performance, the overweighting of consumer discretionary detracted.
- On a stock basis, the top-performing positions were **Hon Hai Precision**, and the zero weightings in Auras Technology and Formosa Petrochemical.
- The weakest-performing positions were the underweight to **TSMC**, and the positions in **Parade Technologies** and **Largan Precision**.

## Portfolio Activity

- We purchased a stake in **Accton Technology** as the ramp-up in production of CoWos (chip-on-wafer-on-substrate) will support its sales momentum. We added **China Development Financial**, Taiwan's second-largest broking house, on the resumption of its dividend payments. A further addition was bicycle/motorcycle chain manufacturer **KMC (Kuei Meng) International**, owing to expectations that it will benefit from re-stocking demand from mid-2024.
- We took profits in **TSMC** and **ASMedia Technology** and sold **Uni-President Enterprises** due its disappointing capital allocation plan.

## Outlook/positioning

- Taiwanese equities delivered strong returns in 2023, on the back of optimism about a potential bottoming out in the technology cycle and enthusiasm towards the AI theme.
- As we navigate 2024, the market could remain supported by an improving technology cycle, in which utilisation levels pick up, pricing remains stable, and demand recovers to positive growth in end markets.
- Taiwan's market is trading at a more elevated valuation compared with regional markets and its historic trading range. From a funds flow perspective, we may see investors consider rotating away from Taiwan into the more cheaply valued China and Hong Kong markets if fundamentals in the mainland turn more positive.
- We will continue to run a relatively balanced portfolio, and carefully add back to preferred technology stocks in anticipation of the cyclical recovery over the medium term.

## Calendar year performance (%)

Year	Fund	Target	Comparator
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
2014	2.9	5.1	3.4

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. A Acc share class, as at 31 December 2023. 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. 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 fact sheets for the performance of other share classes.

## Risk considerations

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**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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