

Schroder ISF* Taiwanese Equity

Fund Manager: Louisa Lo | Fund update: January 2025

Performance overview

- The Taiwanese market produced a positive return and outperformed other emerging markets in aggregate. This was against a background of ongoing tariff risks as US President Donald Trump took office.
- Chinese AI start-up DeepSeek released an open-source lower-cost AI model, comparable to OpenAI's large language model in terms of performance. As the market digested the implications of this news, market volatility rose, heavily affecting technology shares.
- Nevertheless, technology stocks still performed well, while the energy and healthcare sectors were also strong.
- The fund rose over the month, but underperformed the benchmark index.

Drivers of fund performance

- Stock selection detracted and was the main factor behind the fund's negative relative returns. It was weakest in information technology.
- On a stock basis, the top-performing positions were **ASE Technology**, **Universal Microwave Technology** and **MediaTek**.
- The weakest-performing positions were the underweight to **TSMC**, and the holdings in **Parade Technologies** and **Chroma ATE**.

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.

Outlook/positioning

- Taiwan's market will likely remain hostage to the performance of technology stocks, which dominate its indices. After another strong year, the technology sector's prospects could be tougher in 2025.

- The recent release of DeepSeek's R1 further complicates the sector outlook as it raised questions about the necessity of massive AI infrastructure capex, yet simultaneously lifted hopes about more AI applications and inference demand. Growth in the broader consumer technology supply chain also
- remains subdued, although the cost breakthrough by DeepSeek is expected to accelerate AI application for edge AI, which can hopefully lead to a faster replacement trend.
- Outside of technology, the return of Trump is likely to bring greater uncertainty to Taiwan, given tariff threats, higher inflation risks, and upward pressure on the US dollar and interest rates. As an export-oriented economy, Taiwan may see a growth slowdown, given the uncertainty surrounding global trade and geopolitics.
- Technically, market valuations, especially in technology, have become very high after years of strong performance. At current valuations, we are conscious that the market has probably priced in a very rosy outlook for AI capex and global growth as well as a US Federal Reserve rate cut. Consequently, any disappointment on these fronts could result in very sharp share-price movements.
- We will maintain a relatively balanced portfolio and carefully add back to preferred technology stocks if valuations become more attractive. However, we remain selective in our investments and favour 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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