Schroders

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Schroder Asian Income Fund

Fund Manager: Richard Sennitt | Fund update: February 2023

Performance overview

- Pacific ex-Japan equities declined in February, in sterling terms, partly on profit-taking after a strong January. US dollar strength was an additional headwind for index markets, most of which fell over the month.
- China was the weakest performer, owing in part to a re-escalation in US-China tensions. Thailand, Malaysia, South Korea and Australia all declined, although the latter two markets mildly outperformed the benchmark index. Indonesia and Taiwan were exceptions to the general sell-off. Both markets rose marginally, and thereby materially outperformed the index.
- The fund produced a negative return, but outperformed the target benchmark, the MSCI AC Pacific ex Japan index.

Drivers of fund performance

- Both stock selection and allocation contributed positively to the fund's superior relative returns.
- At the regional level, underweight exposure to China was the principal contributor to fund performance. Stock selection was also positive in China and, to a lesser degree, in Hong Kong. This offset weaker stock selection in South Korea.
- At the sector level, allocation had a positive impact, mainly due to the underweighting of consumer discretionary. Stock selection also contributed positively, particularly in communication services.

Outlook/positioning

- Markets have moved to price in an additional interest rate hike by the US Federal Reserve this year. Furthermore, the timing of rate cuts has been pushed out, as rates may need to stay 'higher for longer' in order to squeeze out inflation.
- In China, it appears that Covid case numbers have peaked and society is rapidly moving on after two to three years of severe disruption. Meanwhile, investors are closely watching for further signs of policy support for the cyclical recovery.
- Markets have now pulled back from their January highs, and aggregate valuations are back to slightly below longer-term average levels. Earnings growth revisions have been negative for some time and are now quite moderate.
- Although dividends have recovered with earnings, there is still uncertainty as to where near-term dividend payments will go, given the ongoing economic uncertainties and downward earnings pressure to stocks across the region. The weakness of sterling in 2022 has also been a tailwind, so this will need to be watched. However, aggregate corporate balance sheets look relatively robust and company profitability has recovered from the pandemic lows, meaning dividend pay out ratios are not extended. In the medium-to-long term, dividends tend to follow earnings.
- We are maintaining a bottom-up investment approach and continuing to look for good companies where we can clearly see a strong income case and potential for capital growth.

Calendar year performance (%)

	Fund	Target	Comparator
2022	0.2	-8.5	-6.8
2021	6.5	-5.0	1.5
2020	13.5	19.2	19.9
2019	12.0	15.7	15.8
2018	-4.7	-9.2	-9.8
2017	18.1	25.1	25.3
2016	30.0	28.2	25.9
2015	-2.5	-4.4	-2.9
2014	12.7	7.8	9.6
2013	2.0	2.0	1.8

Source: Schroders, net of fees, bid to bid, with net income reinvested. Z Acc share class, as at 31 December 2022. Target benchmark is MSCI AC Pacific ex-Japan, and the comparator is Investment Association Asia Pacific ex-Japan sector average return. The investment manager invests on a discretionary basis and is not limited to investing in accordance with the composition of this benchmark.

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.

Risk considerations

Capital erosion: As a result of fees being charged to capital, the distributable income of the fund may be higher, but there is the potential that performance or capital value may be eroded.

Emerging markets and frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially 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.

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.

IBOR: 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.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

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 – 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.

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