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Schroder ISF* Taiwanese Equity

Fund Manager: Louisa Lo | Fund update: February 2023

Performance overview

- Taiwanese equities rose mildly over the month, and by so doing, materially outperformed other Asian markets, and indeed, most developed world markets. This was largely due to renewed optimism about the global and domestic economic outlook in 2023.
- The fund produced a negative return and marginally underperformed the benchmark in the month.

Drivers of fund performance

- Stock selection was positive, with the best returns coming from the industrials and information technology sectors. Selection in healthcare was weak.
- Sector allocation was also mildly positive, mainly owing to the overweighting of healthcare.
- On a stock basis, the top-performing positions in the fund were the underweight exposure to **Taiwan Semiconductor Manufacturing**, followed by the holdings in **Sporton International** and **ASMedia Technology**.
- The weakest-performing positions were the holdings in **Hsin Kuang Steel** and **Pegavision**, and the zero weighting in **Global Unichip**.

Outlook/positioning

- Taiwanese equities underperformed in 2022. With global growth expectations being downgraded on the back of higher inflation and the Russia-Ukraine conflict, the export-oriented parts of the Taiwanese equity market have come under more pressure. Concern over the downcycle in the semiconductor and technology sectors after the boom in the Covid era also weighed on performance given the technology-heavy nature of the Taiwan market.
- Additionally, the overall risk premium in Taiwanese equities has increased as a result of the escalation in geopolitical concerns. Markets are now getting more nervous about China's plan for Taiwan, especially after tensions were stoked by US Speaker of the House of Representatives Nancy Pelosi's visit in August last year.
- Nevertheless, the macroeconomic and microeconomic headwinds facing Taiwan are largely priced in after a year of brutal correction in 2022. Looking ahead, while uncertainties linger, there is potential for the technology inventory cycle to inflect in the first half of 2023, which could drive a sharp re-rating in the Taiwan market. Domestic activity may also recover as Taiwan steadily exits from Covid.
- Given the more challenging macroeconomic backdrop, we will continue to run a relatively balanced portfolio, without any major style bias. This means more balanced exposure to both defensive stocks as well as some longer-term structural growth themes within the market. We continue to identify stocks that are globally competitive and possess company-specific structural growth drivers. We will also maintain our valuation discipline, with a focus on seeking out investment opportunities in companies with professional management, strong cashflows and dividend support.

Calendar year performance (%)

Year	Fund	Target	Comparator
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
2013	8.5	12.2	11.0

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. A Acc share class, as at 31 December 2022. 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

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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

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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