Schroders

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Schroder ISF* Asian Total Return
Fund Update
February 2023

Fund Performance

Performance of Schroder ISF Asian Total Return ('C' Class Accumulation Units)
Since inception (16 November 2007) to end of Feb 2023, indexed returns in USD

Calendar year returns (%)

	Fund	Index	Comparator
2022	-22.9	-17.5	1.5
2021	4.7	-2.9	0.1
2020	31.0	22.4	0.7
2019	18.5	19.2	2.4
2018	-14.6	-13.9	2.4

	Fund	Index	Comparator
2017	40.2	37.0	1.3
2016	7.2	6.8	0.8
2015	-2.5	-9.4	0.3
2014	7.1	2.8	0.2
2013	5.0	3.4	0.3

Index: MSCI AC Asia Pacific ex Japan, USD terms.
Comparator: USD 3 Month T-Bill (or an alternative reference rate).
Source: Schroders, bid to bid, with net income invested.

Past performance is not a reliable indicator of future results, the prices of shares and the income from them may fall as well as rise, and investors may not get back the full amount originally invested.

%	Feb 2023	YTD	1 Year	3 Years Annualised	Annualised Since Inception	Annualised Standard Deviation	Sharpe Ratio (RFR = USD 3-month T-Bill)
Schroder ISF Asian Total Return (C Class USD)	-4.8	4.0	-13.5	5.9	8.4	17.1	0.4
MSCI AC Asia Pacific ex Japan index	-6.8	1.3	-12.0	2.5	2.5	20.8	0.1
USD 3 month T-Bill	0.3	0.6	2.1	0.8	0.7	0.3	--
Lipper Equity Asia Pacific ex Japan universe	-7.1	1.1	-14.3	1.8	1.7	20.7	0.1
Quartile Ranking (Fund Ranking)	Q1 (48/552)	Q1 (31/551)	Q2 (262/537)	Q1 (79/470)	Q1 (1/218)	Q1 (7/218)	Q1 (2/218)

Lipper universe annualised standard deviations and Sharpe ratios are calculated for the period since the fund's inception, and annualised returns are calculated based on number of days since inception. For illustrative purposes only and should not be construed as a forecast, prediction or projection of the future or likely performance of the fund. The fund is not managed with reference to any specific benchmark(s) but its performance may be measured against one or more.
Source: Bloomberg, Lipper IM, Schroders, as at end of February 2023. Quartile data source: Lipper universe.

*Schroder International Selection Fund referred to as Schroder ISF throughout this document

FEBRUARY PERFORMANCE REVIEW

After a strong open to the year, equity markets pared back some of the gains in February as a higher-than-expected US CPI number re-ignited US rate hike fears. Rising Sino-US geopolitical tensions on the back of suspected Chinese spy balloons spotted in Montana only served to deflate market sentiment further as the MSCI World index declined by -2.4% in the month.

Against this backdrop, the fund fell -4.8% (C class share in USD) in February, which compares to a return of -6.8% delivered by the regional MSCI AC Asia Pacific ex Japan index. This also brings the year-to-date returns of the fund to +4.0% versus the regional index of +1.3%.

RISK CONSIDERATIONS

- Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you 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.

- Currency risk / hedged shareclass: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

- 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.

- Onshore renminbi currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Currency control decisions made by the Chinese government could affect the value of the fund's investments 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.

- 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 macro economic environment, investment objectives may become more difficult to achieve.

- Stock connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

- Sustainability risk: The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

STRATEGY REVIEW AND FUND STRATEGY

Post our lengthy Year of the Rabbit report released last month, this month's comments will be brief. In particular, we want to update on a couple of points we made in section 2 of the report where we discussed our models' indications, namely their prediction of a lacklustre earnings environment in Asia as well as their neutral call on the region's valuation which left our portfolio unhedged amidst elevated put prices.

Earnings

Over the last two months, 369 Asian companies in our regional reference benchmark, accounting for almost three-fifths of the index weight, announced their earnings and, in line with our model's forecast, the results have generally fallen short of market expectations. Indeed, almost half of the companies that reported disappointed the market with their latest earnings achievements, while the rest of the companies are roughly split equally between two camps: the ones who met consensus views and the ones who beat. Much of the disappointments appear to be in the markets of Korea, Hong Kong and Thailand, while the sectors of materials and real estate also have disproportionately more companies that did not live up to expectations. Unsurprisingly China, whose companies saw a raft of analyst downgrades post the CPC congress last year, ended up with the greatest proportion of firms that surprised on the upside, with half the corporates exceeding depressed expectations. Outside of that, there are certainly no obvious countries or sectors that have done exceedingly well.

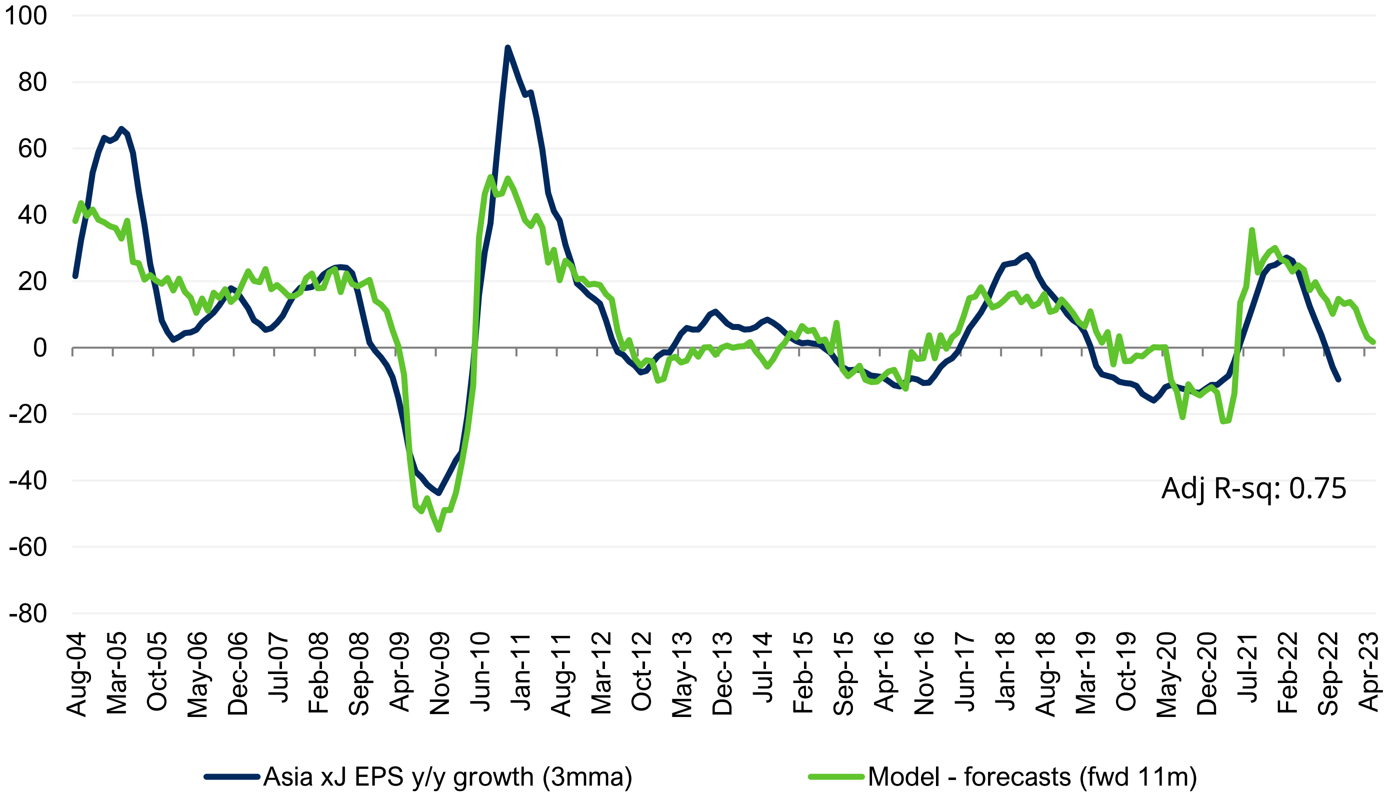
Against this difficult earnings backdrop, the stocks in our portfolio probably fared relatively satisfactorily. 37 of our stock holdings, accounting for three-quarters of the aggregate fund, reported their numbers and seven out of ten of them managed to meet or beat market estimates. With the leading indicators that we track still painting a gloomy picture, we continue to be cautious and expect the region's earnings environment to stay difficult for at least the first half of this year. However, as we pore over our stock holdings, we remain convinced that these are all high-quality companies with strong fundamentals and that they will be the ones that ultimately prevail in the long-term. As such, we are making minimal changes to them.

Figure: Almost half of the Asian companies that reported earnings over the last two months have disappointed market expectations

		# cos	% of Index/Port	% Beat	% Meet	% Miss
	SISF ATR	**37**	**75%**	**24%**	**46%**	**30%**
	MSCI AC APxJ	**369**	**58%**	**28%**	**27%**	**46%**
By country	Australia	51	13%	24%	41%	35%
	China	28	5%	50%	11%	39%
	HK	15	2%	27%	13%	60%
	India	97	12%	37%	27%	36%
	Indonesia	9	1%	11%	56%	33%
	Korea	72	10%	19%	14%	67%
	Malaysia	29	1%	17%	31%	52%
	NZ	5	0%	40%	20%	40%
	Philippines	3	0%		67%	33%
	Singapore	19	3%	37%	32%	32%
	Taiwan	18	8%	22%	39%	39%
	Thailand	23	1%	13%	26%	61%
By sector	Comm Svcs	34	4%	21%	29%	50%
	Cons Discretionary	46	7%	30%	17%	52%
	Cons Staples	34	3%	32%	29%	38%
	Energy	19	3%	21%	32%	47%
	Financials	51	11%	33%	39%	27%
	Health Care	22	3%	32%	23%	45%
	Industrials	45	3%	33%	20%	47%
	Technology	39	15%	28%	38%	33%
	Materials	43	7%	21%	14%	65%
	Real Estate	22	2%	14%	27%	59%
	Utilities	14	1%	29%	21%	50%

Source: Factset, Schroders

Figure: Our models continue to forecast slow earnings growth for Asian companies in the first half of this year



Source: Schroders, Factset, MSCI

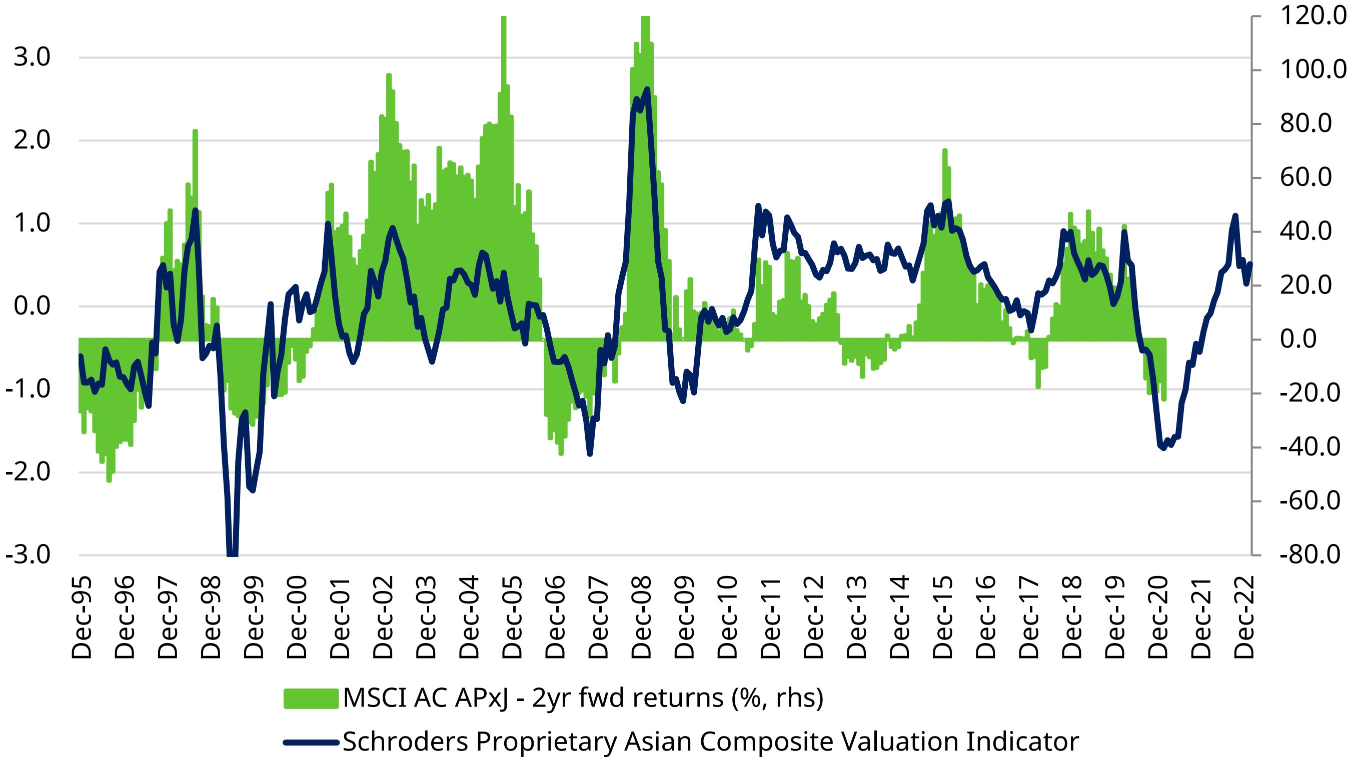
Hedging

In the report last month, your fund managers also articulated how "our proprietary valuation indicators, both top-down and bottom-up, are firmly in the neutral territory [and that with] put option pricing [still at] elevated levels, the fund is currently unhedged. However, if opportunities arise to purchase some protection at a low cost, we will certainly consider doing so."

While regional markets, led by China's -10.4% decline, did fall by close to -7% last month, it seems that our valuation indicators remain little changed. Indeed our top-down composite valuation indicator continues to edge closer towards the neutral line, while our bottom-up valuation indicator also contracted slightly to 60.4% compared to the 61.6% it recorded at the beginning of the year. Historically when both our proprietary valuation indicators are flashing neutral signals, Asian markets have returned +14.0% on average over the next two years, a figure that is a tad below what the region has typically delivered over the same time horizon.

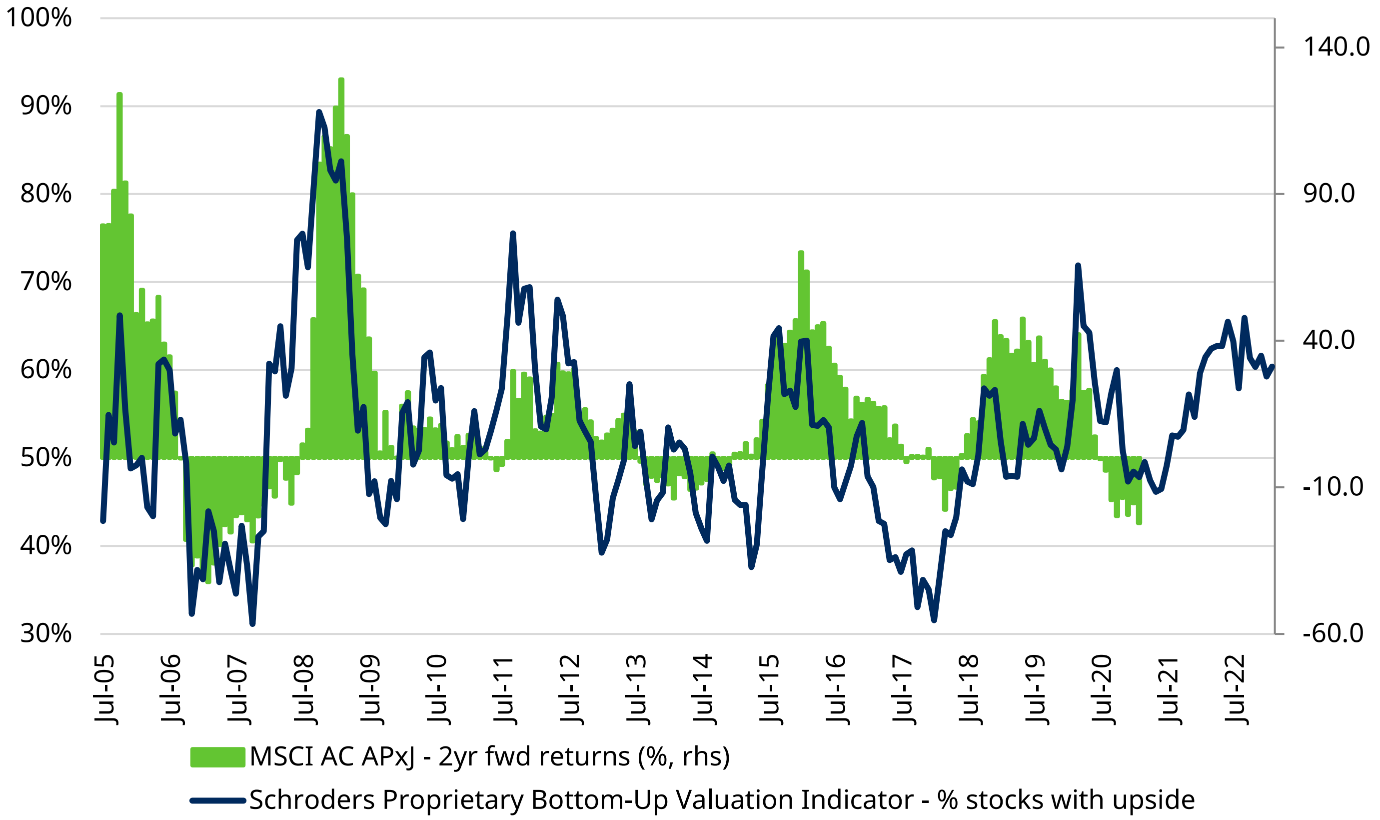
What has changed though is that the market rally in January has helped boost market sentiment in February which afforded us opportunities to buy some Taiwanese put options at a reasonable price, with those put options spanning both different strike prices as well as different expiry dates. This leaves our portfolio with a current net exposure of 94.7%. We will continue to monitor put prices for these cheap days as we look to reduce the net exposure further.

Figure: Our top-down valuation has edged closer to the neutral line compared to the beginning of the year



Source: Factset, MSCI, Schroders

Figure: Our bottom-up valuation indicator has also slightly fallen compared to the beginning of the year



Source: Factset, MSCI, Schroders

Figure: Historically when both our proprietary valuation indicators flash neutral signals, Asian markets have delivered slightly lower-than-average returns two years later

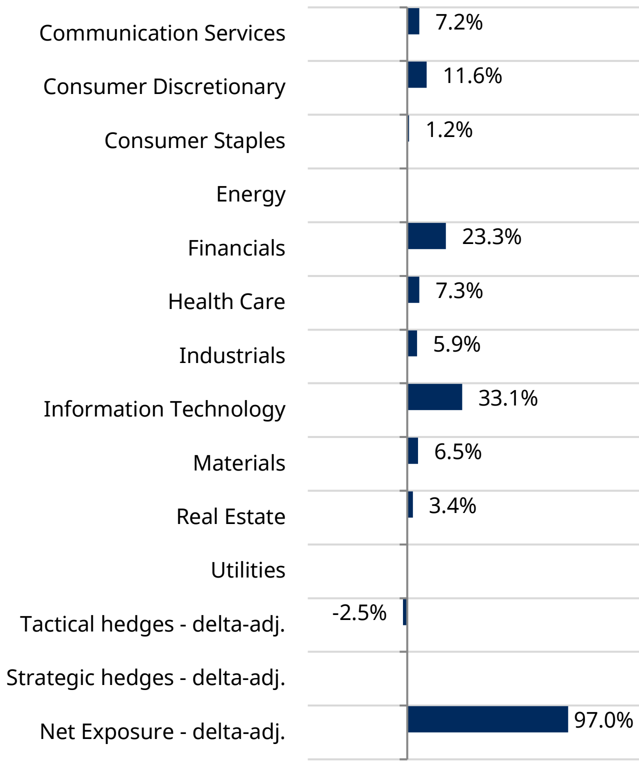
MSCI AC APxJ average 2-year forward returns

Schroders Proprietary Valuation Indicators		Top-down		
		Cheap	Fair	Expensive
Bottom-up	Cheap	na	28.1	76.3
	Fair	-13.1	**14.0**	58.4
	Expensive	-24.2	-14.3	na
			Period average:	17.3

Source: Factset, MSCI, Schroders

Lee King Fuei and Robin Parbrook
9th March 2023

FUND POSITIONING



Source: Schroders, as at end of February 2023.

For illustrative purposes only and does not constitute any recommendation to invest in the above-mentioned countries.

TOP 10 HOLDINGS

Stock	Fund (%)
TSMC	9.3
Samsung Electronics	6.9
DBS Group	3.4
Tencent	3.3
AIA	2.7
Techtronic Industries	2.6
HDFC Bank	2.5
CSL	2.3
Bank Mandiri	2.1
Swire Pacific	2.1
Total	**37.2**

Source: Schroders, as at end of Feb 2023.

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