

Schroder ISF* Asian Smaller Companies

Fund Manager: Paul Rathband | Fund update: October 2021

Performance overview

- Asian ex-Japan small-cap equities rose in October, driven by positive earnings guidance and an ongoing decline in new Covid cases in many countries.
- The Philippines was the best-performing market. Indonesia rose strongly, while Malaysia and Thailand outperformed.
- China was the weakest market as investors remained concerned about the real estate market as well as the impact of tighter regulations on various sectors of the economy. India was also slightly weaker.
- The fund (C Acc USD) performed in line with the reference benchmark over the month.

Drivers of fund performance

- At the country level, selection had a neutral impact on returns. While selection was notably positive in China, it was weak in Hong Kong and Taiwan. Overweight exposure to the Philippines was beneficial.
- At the sector level, stock selection was negative. It was weakest in information technology, while also mildly weak in most sectors, offsetting strong selection in industrials. Underweight exposure to materials benefitted returns.
- At the stock level, the greatest absolute performance contributions came from our holdings in **Wilcon Depot, Gateway Distriparks** and **NHN KCP**.
- The greatest detractors were our positions in **PI Advanced Materials, Douzone Bizon** and **Can Fin Homes**.

Outlook/positioning

- In India, we continue to like and are exposed to secular themes, such as opportunities in residential and commercial real estate, as well as financial proxies.
- Regarding China, much has been written in the press about recent policy changes, but from a small-cap perspective, there has been a limited impact. The changes in policies affecting sectors such as the internet, Macau gaming and education have been predominantly felt by larger companies that have been caught in the government's crosshairs. Our exposure in China is less macroeconomic, and more thematic. Within our Hong Kong holdings, we continue to see very good value in many stocks that are currently challenged by a weak domestic economy, in part due to Covid-19 travel restrictions.
- Overall, we continue to see investment opportunities, although perhaps the hunting grounds are changing slightly. We still believe in key long-running secular themes in Asia. These include housing; consumption/premiumization; hygiene/healthcare; financial inclusion; disruption and companies providing innovative solutions within areas such as green technology, 5G and advanced driver-assistance systems (ADAS).

Calendar year performance (%)

	Fund	Target	Comparator
2020	23.0	26.2	23.3
2019	9.0	7.2	11.8
2018	-20.9	-18.9	-18.3
2017	22.3	33.5	30.6
2016	-2.2	-2.3	0.0

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc USD share class, as at 31 December 2020. Index source: MSCI, as at 31 December 2020. The target benchmark is the MSCI AC Asia ex-Japan Small Cap (Net TR) index and the comparator is the Morningstar Asia ex-Japan Small Cap Equities sector.

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

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: 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.

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

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.

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In order to access restricted markets, the fund may invest in structured products. Should the counterparty default, the value of these structured products may be nil.

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.

Smaller companies' risk: Smaller companies generally carry greater liquidity risk than larger companies, and they may also fluctuate in value to a greater extent.

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.