

Schroder ISF* Asian Smaller Companies

Fund Manager: Paul Rathband | Fund update: February 2023

Performance overview

- Asia ex-Japan small-cap equities declined in February, partly on profit-taking after a strong January. US dollar strength was an additional headwind to benchmark index markets.
- China was one of the weakest markets as uncertainties surrounding the shift away from its 'zero-Covid' policy persisted. A re-escalation in US-China tensions also weighed on sentiment. Thailand was notably weak.
- Taiwanese equities rose mildly over the month, and by so doing, materially outperformed. This was largely due to renewed optimism about the global and domestic economic outlook in 2023.
- The fund (C Acc USD) posted a return of -2.6% relative to the target benchmark, which returned -2.9%.
- In Hong Kong, the stark reversal of China's zero-Covid policy should bode well for the local market. Despite the recent surge, many of our holdings remain reasonably valued and not as stretched as they were. Generally, we see more upside.
- Overall, we can see opportunities, although perhaps the hunting grounds are changing slightly. We still believe in key long-running secular themes in Asia. These include: housing; consumption/premiumisation; hygiene/healthcare; financial inclusion; disruption and companies providing innovative solutions within areas such as green technology, 5G and advanced driver-assistance systems (ADAS).

Drivers of fund performance

- Stock selection was the key driver of the fund's superior relative returns.
- At the regional level, selection was notably positive in India and China, which offset weakness in Hong Kong.
- At the sector level, selection was positive. It was strongest in healthcare and industrials, while weak in information technology.
- The greatest absolute performance contributions came from our holdings in **Medy Tox**, **Sporton International** and **Gujarat Pipavav Port**.
- The biggest absolute performance detractors were our positions in **Techtronic Industries**, **Leeno Industrial** and **Johnson Electric Holdings**.

Outlook/positioning

- In India, we still like and are exposed to secular themes, such as residential and commercial real estate, and financial proxies. While we remain positively disposed to investing in India, we are finding it increasingly difficult to find value there and are now underweight against the index.

Calendar year performance (%)

	Fund	Target	Comparator
2022	-18.0	-20.4	-20.2
2021	12.0	20.7	13.1
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
2015	1.5	-3.5	-2.0
2014	8.4	2.3	5.9
2013	19.6	6.9	14.7

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc USD share class, as at 31 December 2022. Index source: MSCI, as at 31 December 2022. 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.

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.

Risk considerations

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