Schroders

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Schroder ISF* Japanese Opportunities

Fund Manager: Ken Maeda | Fund update: February 2023

Performance overview

– The Japanese stock market rose slightly in February but moved almost sideway with narrow range for most of time. The total return for the month was +0.9% in local terms. The yen weakened sharply after the testimony at the Diet by nominee of new Bank of Japan (BOJ) Governor, Mr Kazuo Ueda, as he seems to prefer status quo, meaning no immediate action. Yen weakness supported the market sentiments especially for exporters.

– The fund slightly outperformed the benchmark in the month.

Drivers of fund performance

– There was positive contribution from sector allocation while stock selection had slight negative impact.

– The largest positive contributions came from not holding Softbank group and Recruit Holdings. Among the stocks held, Orix, a leasing company, added value.

– The largest offsetting negative impacts came from Optorun, a small cap machinery company and C. Uyemura, a small cap chemical company.

Outlook/positioning

– We remain positive on Japan based on economic outlook for 2023, corporate earnings prospects, and valuation level. While we would need to be mindful of risks mainly coming from outside of Japan, cyclically, Japan is well positioned to weather headwinds concerning global economy and markets. In addition, Japan's specific structural developments, Japanese companies' efforts to improve profitability, need to be emphasized.

– While we need to be mindful of headwinds toward Japan's corporate earnings, recession risk in US, cost increase, Yen fluctuation, and extended geopolitical risk, fiscal year 2022 results will complete at March end 2023 with reasonably solid figures. Based on that earnings estimates, the valuation of Japanese stock market remains attractive with forecast PER of 12-13x, below the historical average of 14-15x.

– Given recent discussion around low PBR and low profitability, we see a greater potential for changes and eventually revaluation of stock prices in mid and small cap.

Calendar year performance (%)

Year	Fund	Target
2022	+2.0	-2.9
2021	+12.4	+12.5
2020	+0.3	+7.4
2019	+16.7	+18.1
2018	-23.2	-16.0
2017	+28.1	+22.2
2016	+1.7	+0.3

Source: Schroders, net of fees, NAV to NAV with net income reinvested. C Acc share class. 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.
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 factsheets for the performance of other share classes.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

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.

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 – 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.

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

Important information