Schroders

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Schroder ISF* Global Emerging Market Opportunities

Fund Update

A look back on September 2019

At a glance

Fund manager: Tom Wilson and Nicholas Field

Performance: The fund returned 0.9% (A Acc Share class) over the month**.

Market overview: The MSCI Emerging Markets Index gained 1.9%.

Largest contributors: The overweight to Turkey was positive.

Largest detractors: Stock selection in Brazil was negative.

**Source: Schroders, as at 30 September 2019. Net of fees, bid-bid, with net income reinvested. Index source: MSCI as at 30 September 2019.

Calendar year performance (%)

	Fund Net	MSCI Emerging Markets Net TR
2018	-16.4	-14.8
2017	38.6	37.3
2016	8.6	11.2
2015	-13.9	-14.9
2014	-1.6	-2.2

Source: Schroders, net of fees, bid-bid, with net income reinvested. A Acc share class as at 31 December 2018.

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.

What happened in the markets

Global equities rebounded in September as major central banks moved to a more accommodative policy stance. Emerging market equities recorded a positive return, despite US dollar strength. The MSCI Emerging Markets Index increased in value but underperformed the MSCI World.

Turkey was the best-performing index market as the central bank cut interest rates by more than expected. India outperformed as the government unexpectedly announced material cuts to corporate tax rates. Taiwan and South Korea posted solid gains and finished ahead of the index, amid some easing in US-China tensions. Performance was largely driven by technology stocks, which moved in anticipation of a recovery in semiconductor prices, as well as a stabilisation in memory pricing. Elsewhere, Russia and Chile also outperformed, benefiting from crude oil and copper price rises respectively.

By contrast, the UAE was the weakest index market, negatively impacted by a rise in geopolitical tensions in the Middle East following an attack on oil infrastructure in Saudi Arabia. Chinese equities were broadly flat over the month, despite better sentiment towards US-China trade talks.

How the fund performed

The fund returned 0.9% (A Acc share class) but underperformed the MSCI Emerging Markets Index. Among our core markets, stock selection in Brazil and South Korea were the main drags on relative returns. In Brazil, the off-benchmark holding in digital payment processor **Pagseguro Digital** and the overweight to fuel distributor **Petrobras Distribudora** detracted. Both stocks fell back following strong performance. In Korea, the overweights to **Samsung SDI** and **LG Chemical** were negative. Stock selection in Russia was slightly negative. This included the off-benchmark holding in financial holding company **TCS Group**. Hungary had a marginally negative impact on relative returns. By contrast, the overweight to Turkey added value. Stock selection in Greece was also slightly positive. Within our non-core markets allocation, China (overweight

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

China Pacific Insurance) and India (overweight Infosys) were the key detractors. By contrast, Taiwan (overweight Largan Precision) was positive.

Looking ahead

Although US-China trade negotiations continue, we do not expect a conclusive near-term resolution to the dispute. The issue of US-Chinese strategic competition is likely to persist, and related policies carry bipartisan support in the US. Against this backdrop there is ongoing risk of escalation in tensions.

Globally, monetary policy is being eased in response to weaker activity: Fed easing creates room for EM central banks to cut rates. The US dollar real effective exchange rate (REER) looks expensive and dollar depreciation would further support EM financial conditions. However, we are concerned that the dollar may remain firm due to the relative economic resilience of the US economy; the trade conflict creates some risk of renminbi weakness; and global policy uncertainty impedes the transmission of lower interest rates and is likely to reduce the scope of policy easing by EM central banks, given the risk of currency weakness.

There are a number of potential positive catalysts which could support EM equities: a de-escalation in the trade conflict; an acceleration in Fed easing over coming months; German fiscal easing and a change in attitude to eurozone fiscal stimulus; and more aggressive Chinese stimulus relative to expectations. None of these are our base case but all bear watching.

We made no changes to our core markets in October. In Brazil, valuations have lifted, but earnings are yet to pick up. The policy outlook is positive and the economy is expected to recover. In Russia, US sanctions risk remains but valuations are cheap. In South Korea, valuations are attractive. In Hungary, the economy is supportive and valuations, reasonable. In Greece, economic recovery is ongoing and valuations are cheap. In Turkey, valuations are cheap, despite the weak growth outlook and policy concerns.

Risk considerations

The capital is not guaranteed.

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.

A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities.

Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund.

Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class.

Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa.

Where the fund (or the manager) holds a significant percentage of the shares of one or more companies, it may be difficult to sell those shares quickly. It may affect the value of the fund and, in extreme market conditions, its ability to meet redemption requests upon demand.

The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets.

Emerging markets will generally be subject to greater political, legal, counterparty and operational risk

Emerging equity markets may be more volatile than equity markets of well established economies. Investments into foreign currencies entail exchange risks.

Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.