

Overview

Fund objective To generate long-term returns before fees in excess of the MSCI Emerging Markets (Net Dividends Reinvested) Index by investing in a highly diversified portfolio on the basis of both attractive valuations and business quality. Currency exposure is typically unhedged, however currency derivatives may be used in managing cash flows or for risk management purposes.

Key features

- The Fund offers exposure to emerging market equities through investing in stocks on the basis of valuations, business quality and ESG (“Environmental, Social and Governance”) considerations.
- The advantages of both Value and Quality in one fund – while both strategies tend to outperform, through time they tend to deliver their returns at different stages of the economic cycle, offering investors the potential for outperformance across a broad range of market environments.
- High conviction and diversification – a highly diversified portfolio, typically invested in excess of 300 stocks. This high level of diversification reduces stock-specific risk without sacrificing conviction.
- Globally unconstrained, all cap portfolio – we maximise the opportunity set by looking beyond the index to an exceptionally broad investment universe.
- Country risk monitored via a proprietary model – portfolio managers monitor country risk using a proprietary top-down model which enables the portfolio managers to understand, monitor and, where necessary, mitigate risk.

Performance to 29 February 2020

Relative to MSCI Emerging Markets Index

Performance – Calendar years

Total returns (AUD %)	2020 YTD	2019	2018	2017	2016*
Fund (Gross)	-3.80	+12.55	-4.32	+21.63	+15.95
MSCI Emerging Markets	-1.54	+18.60	-5.08	+27.09	+14.34
Excess (Gross)	-2.26	-6.05	+0.77	-5.46	+1.61
Fund (Net)	-4.02	+10.99	-5.64	+19.95	+14.68
Excess (Net)	-2.48	-7.60	-0.55	-7.14	+0.34

Performance – Rolling periods

Total returns (AUD %)	1 month	3 mths	FYTD	1 Year	3 Years p.a.	SI p.a.*	SI cum*
Fund (Gross)	-2.60	-2.65	-2.09	+0.37	+6.84	+10.05	+46.10
MSCI Emerging Markets	-1.64	+1.81	+5.26	+8.27	+11.23	+12.80	+61.07
Excess (Gross)	-0.96	-4.46	-7.35	-7.90	-4.39	-2.75	-14.97
Fund (Net)	-2.71	-2.99	-2.99	-1.02	+5.36	+8.53	+38.28
Excess (Net)	-1.07	-4.80	-8.26	-9.29	-5.87	-4.26	-22.79

Past performance is not a reliable indicator of future performance. The difference between the fund and benchmark returns may not equal stated excess returns due to rounding. *Since inception from 16 March 2016. The Fund changed its name from QEP Emerging Markets Fund to Schroder Emerging Markets Sustainable Fund, effective 1 July 2019. While the Fund does not have a formal benchmark, for performance reporting purposes, the reference index for the fund has been, and has remained, the MSCI Emerging Markets Index.

Fund characteristics as at 29 February 2020

	Fund	MSCI Emerging Markets Index
Active share	73.1%	N/A
Number of stocks	167	1,401
Carbon intensity (CO2 t/M\$ sales)	90.8	299.1

Source: Schroders.

Market and fund commentary

Market review

The spread of the coronavirus was the main driver of market activity during February. The month began in risk-on mode as global economic data was still modestly improving. Although the coronavirus was increasingly in the headlines, the situation was initially largely isolated in China, and markets held up through a period of cautious optimism that the virus would be contained due to the prompt actions of the Chinese authorities. However, sentiment deteriorated mid-month due to the swift rise in cases outside of mainland China, particularly in Korea, Japan, and Italy.

The MSCI Emerging Markets Index declined by 5.3% (in USD terms) in February, somewhat less than developed markets, although their year-to-date losses are comparable at nearly 10%. Country performance was uniformly negative, with the exception of China, which recovered slightly from its January decline as infection rates appeared to stabilize and significant policy response was applied. Latin America and EMEA were both down by over 12% due to their higher exposure to commodities, while Asia, helped by China, closed down 2.9%. The US dollar strengthened on the month against a basket of emerging market currencies, as normally occurs when investors seek safe havens.

While the direct impact of the coronavirus fears on a number of exposed areas was very pronounced, most notably the significant selloff in commodity related stocks (particularly oil), industrials (transport), entertainment, luxury goods, semis and autos, there was also a broader impact via weaker sentiment towards global growth resulting in defensive stocks declining by less.

The coronavirus has not yet led to a more broad-based rotation in market leadership as the index heavyweights which have outperformed strongly over the past year have still held on to their gains. As a result, the MSCI EM Value Index continued to lag the Growth index by 2.2% in February and by almost 6% year to date.

The market correction in February was unusually swift, with stock markets experiencing one of the sharpest sell-offs in recent history. We note that while market breadth did pick up on some of the more significant down days (when the largest and most liquid stocks served as a source of funding), it remained surprisingly narrow given the size of market moves. We attribute this to the continued performance of largest stocks and the crowding into the more defensive areas. This presents an ongoing headwind for our more diversified approach.

Fund commentary

The Fund lagged the index in February. From an attribution perspective, the continued outperformance of expensive large-cap growth stocks in Asia, and the general outperformance of China on the month was the most dominant theme. More specifically, our underweight to the BANTS group was by far the most significant detractor, notably our underweights in Tencent and Alibaba as the Chinese market bounced back strongly on a relative basis.

Among the more economically sensitive sectors, detractors were predominantly our overweight to the financial sectors, e.g. Korean banks, South African banks and insurers, and Thai banks. Our positions in selected integrated oil & gas companies in Poland were also a drag on performance.

Offsetting this to some extent, positive contributors were attributed to our holdings in Chinese industrials (machinery, building products, construction), being underweight resources and financials in Brazil as well as our holdings in technology and industrials in Taiwan. The overall direct impact on the portfolio of both positioning in resources and other impacted sectors from the coronavirus was not material.

Market and fund commentary (continued)

The strategy maintains a higher than index position in emerging EMEA, due to larger allocations to South Africa, Poland and Turkey. We continue to favour South African financials and materials. Elsewhere across the region, we have maintained positions in Turkey, primarily banks and stocks with international exposure.

We are broadly neutral on Latin American markets with the notable exception of Brazil where we have a much lower allocation than the index. We tend to avoid financials, telecoms and consumer staples within Brazil due to their weaker quality credentials.

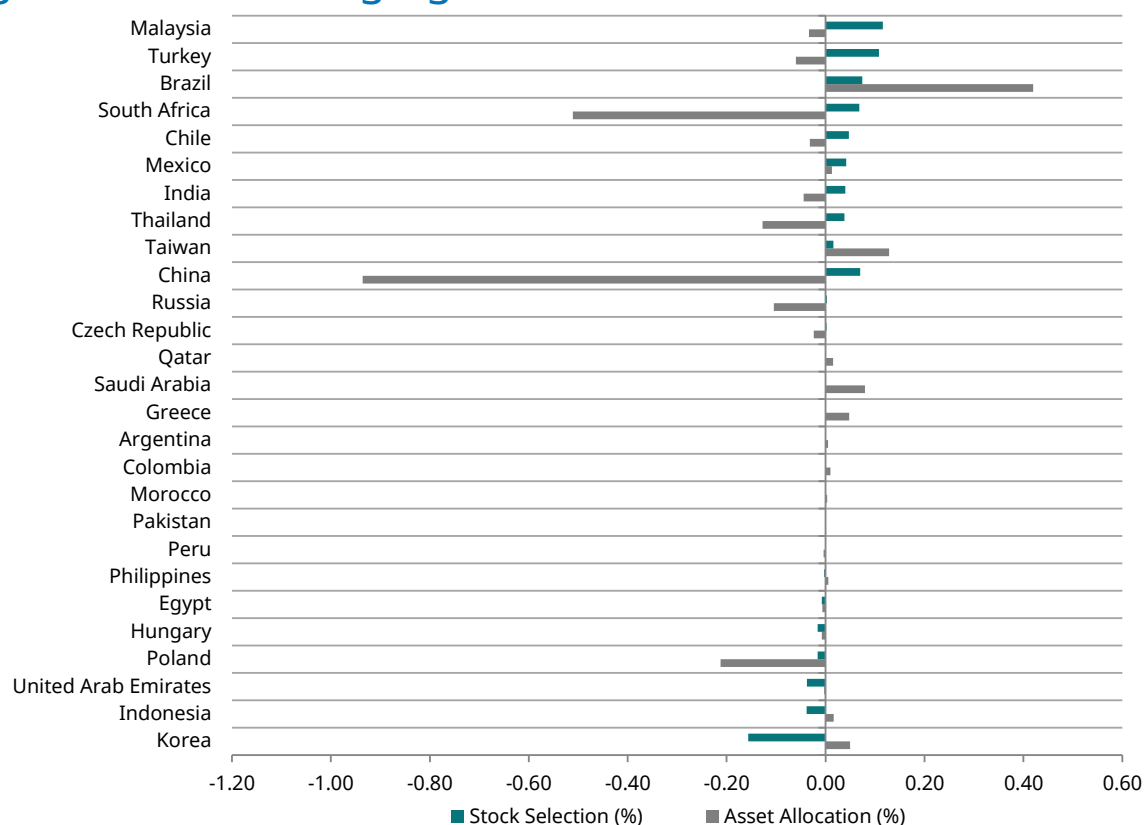
Across EM Asia, the strategy retains a significantly smaller than index allocation to China, in part driven by our avoidance of the index heavyweights such as Tencent, Alibaba and Baidu on valuation grounds. The fund has lower than index allocation to Korea, driven by a lower weight in Samsung.

We remain overweight to Taiwan whilst still holding a smaller than index position in TSMC. Elsewhere across Asia, we favour Indian IT services companies but maintain a lower exposure to Indian financials due to concerns surrounding their asset quality.

Attribution against MSCI Emerging Markets Index

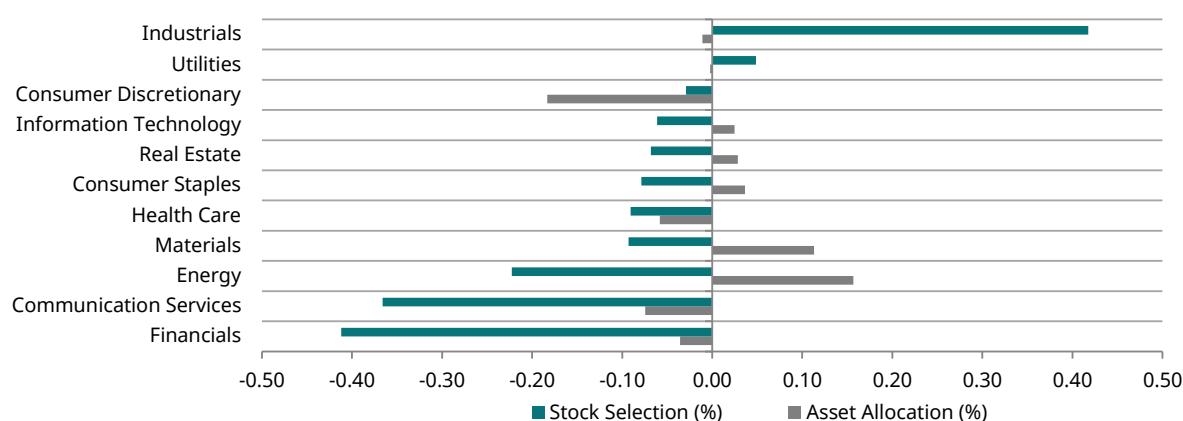
Country

Feb 2020



Sector

Feb 2020



The attribution analysis shown above is intended to provide an indicative summary of the contributions to relative performance. The information is generated using Factset, a multi-currency performance analytical system. The total estimated country and sector performance attribution is reconciled with and adjusted to the reported official relative return. China portfolio effect includes Hong Kong companies with significant business exposure or operation predominantly in China.

Fund details as at 29 February 2020

Fund size	A\$151m
APIR code	SCH0097AU
Redemption price	1.2625
Inception date	16 March 2016
Buy/Sell spread	0.30%/0.30%
Distribution frequency	Normally twice yearly – June and Dec
Management costs	1.40%

Fund weights versus MSCI Emerging Markets Index

Country

As at
29 Feb 2020

Fund (%)	Index (%)	Active Weights
11.2	4.4	South Africa 6.8
15.8	11.8	Taiwan, Province Of China 4.0
5.7	1.8	Malaysia 3.9
11.4	9.1	India 2.3
2.6	0.8	Poland 1.8
3.9	2.3	Thailand 1.7
1.3	0.0	Morocco 1.3
4.9	3.8	Russian Federation 1.1
1.1	0.5	Turkey 0.6
0.7	0.3	Hungary 0.4
1.1	0.7	Chile 0.4
0.5	0.1	Czech Republic 0.3
0.8	0.6	United Arab Emirates 0.2
0.4	0.3	Peru 0.0
0.0	0.0	Pakistan 0.0
2.2	2.3	Mexico -0.1
0.0	0.1	Egypt -0.1
0.0	0.2	Argentina -0.1
0.0	0.2	Greece -0.2
1.6	1.8	Indonesia -0.2
0.0	0.3	Colombia -0.3
0.1	0.9	Philippines -0.8
0.1	0.9	Qatar -0.8
9.5	11.5	Korea, Republic Of -1.9
0.2	2.5	Saudi Arabia -2.3
1.9	6.6	Brazil -4.7
22.5	36.3	China -13.7
0.8	0.0	Cash 0.8

Sector

As at
29 Feb 2020

Fund (%)	Index (%)	Active Weight
24.6	17.7	Banks 6.9
9.2	4.9	Industrials 4.4
19.9	16.6	Information Technology 3.3
3.8	3.1	Real Estate 0.6
2.8	2.4	Utilities 0.4
5.8	6.3	Consumer Staples -0.5
5.9	7.0	Energy -1.1
1.8	3.1	Health Care -1.2
3.9	5.7	Insurers/Asset Mgt -1.8
10.6	13.1	Communication Services -2.5
3.9	7.0	Materials -3.0
7.1	13.2	Consumer Discretionary -6.1
0.8	0.0	Cash 0.8

Size

As at
29 Feb 2020

Fund (%)	Index (%)	Active Weights
29.6	56.6	Mega -27.0
50.3	31.9	Large 18.4
17.2	11.5	Mid 5.7
1.9	0.0	Small 1.9
0.3	0.0	Micro 0.3

China portfolio weight includes Hong Kong companies with significant business exposure or operation predominantly in China. The difference between the fund and benchmark weights may not equal stated active weights due to rounding.

Schroders

Schroder Emerging Markets Sustainable Fund Wholesale Class

Monthly Report – February 2020

Disclaimer

www.schroders.com.au

email: simal@schroders.com

Schroder Investment Management Australia Limited

Level 20 Angel Place, 123 Pitt Street, Sydney NSW 2000

Phone: 1300 136 471 Fax: (02) 9231 1119

Investment in the Schroder Emerging Markets Sustainable Fund - Wholesale class (the "Fund") may be made on an application accompanying the current Product Disclosure Statement, available from Schroder Investment Management Australia Limited (ABN 22 000 443 274 AFSL 226473) ("Schroders"). This Report is intended solely for the information of the person to whom it is provided by Schroders. It should not be relied on by any person for the purposes of making investment decisions. Total returns are calculated using exit price to exit price, after fees and expenses, and assuming reinvestment of income. Gross returns are calculated using exit price to exit price and are gross of fees and expenses. The repayment of capital and performance of the Funds is not guaranteed by Schroders or any company in the Schroders Group. Past performance is not a reliable indicator of future performance. Unless otherwise stated the source for all graphs and tables contained in this report is Schroders. Opinions constitute our judgment at the time of issue and are subject to change. This report does not contain and is not to be taken as containing any financial product advice or financial product recommendation. Schroders may record and monitor telephone calls for security, training and compliance purposes. Third party data is owned by the applicable third party identified above and is provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products or any indices. Such data is provided without any warranties of any kind. Neither the third party data owner nor any other party involved in the publication of this document can be held liable for any error. The terms of the third party's specific disclaimers are set forth in the Important Information section at www.schroders.com.au.