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Schroder ISF* BRIC

Fund Managers: Tom Wilson and Waj Hashmi | Fund update: February 2023

Performance overview

- BIC equities, as measured by the MSCI BIC 10-40 Index, declined in February and underperformed developed world markets.
- A re-escalation in US-China tensions weighed on sentiment while more resilient-than-expected macroeconomic data out of the US raised the prospect of further rate hikes. Against this backdrop the dollar strengthened, which was an additional headwind for Brazil, India and China.
- The fund recorded a negative return that was in line with the MSCI BIC 10-40 Index.

Drivers of fund performance

- Country allocation was broadly neutral as our cash position offset the negative impact of our underweight to India.
- Stock selection overall was neutral. It was positive in India (zero weight Adani Enterprises, overweight **Apollo Hospitals**) but negative in Brazil (off-benchmark **CBA** and **3R Petroleum Oleo e Gas)** and China (overweight **JD.Com**).

Outlook

- The combination of disinflation in the US, an easing energy crisis in Europe and the re-opening of China's economy have helped to ease investor concerns over the outlook for this year. Nonetheless, a high degree of uncertainty over global growth and inflation persists.
- The risk that rates stay higher for longer than markets currently anticipate cannot be ignored.
- For BICs, the recovery in China's economy from a low base is supportive. However, slower global trade will be a headwind for growth this year, and broad-based monetary tightening is a further drag.
- The revival in activity in China continues, driven by the domestic economy. Long-term concerns relating to geopolitics and strategic competition with the US should not be overlooked, though, as recent developments highlight.
- Despite weakness in recent months, the US dollar is still expensive compared with its history on a real effective exchange rate (REER) basis. BIC yields and currencies in general remain at attractive levels.
- Brazil and China valuations at the market level remain reasonable, in our view. India is still expensive.

Calendar year performance (%)

Year	Fund	MSCI Emerging Markets Net TR
2022	-23.1	-21.1
2021	-12.5	-10.9
2020	17.7	17.6
2019	27.2	22.8
2018	-10.2	-13.4
2017	42.5	41.7
2016	9.4	12.1
2015	-13.4	-13.5
2014	-2.4	-2.9
2013	-1.5	-3.5
2012	13.8	14.5

Source: Schroders, as at 31 December 2022. Net of fees, bid-bid, with net income reinvested, USD A Acc. Please see factsheet for other share classes. Index source: MSCI, as at 31 December 2022. 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. Please see the respective fund factsheets for the performance of other share classes.

Note on Russian pricing and performance:
The majority of the allocation to Russia has been via depositary receipts. Schroders has been able to accurately price most of these positions in the portfolio. In the few instances that this was not the case (i.e. a security held did not receive a price), Schroders has applied adjustments in order to better reflect the actual underlying position. The benchmark, mostly comprised of local listings, has adopted a different adjustment process. MSCI carried over prices for local benchmark lines from 25 February, applying only USD/RUB currency changes from that point. This does not fully reflect underlying market values. MSCI removed Russia from all indices after close on 9 March, with an effective price of zero. We expect the negative relative performance effect that is due to the Russian pricing issues to reverse on 10 March.

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

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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.

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.

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

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 macroeconomic environment, investment objectives may become more difficult to achieve.

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