

Schroder ISF* China Opportunities

Fund Manager: Louisa Lo | Fund update: February 2023

Performance overview

- Markets in China and Hong Kong fell, especially the former, largely on profit-taking. A re-escalation in US-China tensions also weighed on sentiment, while the dollar's strength was an additional headwind, leading to weakness in the yuan.
- The fund posted a negative return, but marginally outperformed the benchmark (MSCI China (NDR)) over the month.

Drivers of fund performance

- At the sector level, allocation was the main driver relative returns, with the overweighting of industrials a notably positive feature. Stock selection was also positive, especially in the consumer discretionary sector.
- At the market level, exposure to off-benchmark Hong Kong was the main positive factor.
- At the stock level, the greatest relative performances came from the zero position in **JD.com** and holdings in **Miniso Group** and **Sany Heavy Industry**.
- The greatest detractors were our holdings in **Bilibili** and **China Merchants Bank**, and the zero exposure to **China Construction Bank**.

Outlook/positioning

- China's equity markets have rebounded significantly from the lows of late October, driven by multiple policy pivots, notably the exit from stringent Covid restrictions and more supportive housing market policies.
- The fast-paced removal of the tight Covid-related restrictions in China is expected to provide substantial support to the recovery in consumer spending, which in turn will support domestic earnings in many sectors.
- Regarding the property sector, the government has moved to further support the market, with a clear intention of boosting developer financing. The aim is to underpin buyer confidence and pull away from the downward spiral in activity that occurred in 2022. A stabilised housing market is a pre-condition for a strong cyclical rebound in 2023.

- Fiscal and monetary policies should stay accommodative in the first half of 2023, which will lend support to the economy and equity markets. However, we are conscious of the inflation risk from the sharp cyclical rebound, which could limit room for more loosening in China.
- Externally, Chinese equities will likely continue to be influenced by the global macroeconomic backdrop, especially the extent of rate hikes and the shape of the economic slowdown in the US and Europe. Ongoing geopolitical tensions will also remain a key risk in the market in 2023, in our view.
- We remain positive on the near-term market outlook in China, but further gains will likely be led by fundamental improvements rather than multiple expansion. To see a more sustained rally, improving employment trends are required to further support the Chinese consumer recovery. Additionally, private capital expenditure will also need to pick up to help support economic growth.

Calendar year performance (%)

	Fund	Target	Comparator
2022	-20.5	-21.9	-25.3
2021	-14.7	-21.7	-15.5
2020	42.9	29.5	37.4
2019	19.5	23.5	23.3
2018	-15.0	-18.9	-20.3
2017	44.2	54.1	46.5
2016	3.1	0.9	-1.9
2015	-2.5	-7.8	-3.8
2014	7.5	8.0	4.6
2013	7.4	3.6	8.5

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD A Acc share class as at 31 December 2022. The fund's performance should be assessed against its target benchmark being to exceed the MSCI China (Net TR) index and compared against the Morningstar China Equity Category. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark. The

comparator benchmark is only included for performance comparison purposes and does not have any bearing on how

the investment manager invests the fund's assets. 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.

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.

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.

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.

Onshore renminbi currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.

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.

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.

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