Schroders

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Schroder ISF* Greater China

Fund Manager: Louisa Lo | Fund update: February 2023

Performance overview

- Markets in China and Hong Kong fell, 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. Taiwan only fell marginally and outperformed owing to positive sentiment about the outlook of the technology sector in 2023.
- The fund fell over the month and underperformed the target benchmark (MSCI Golden Dragon (NDR)).

Drivers of fund performance

- At the market level, the underweight exposure to Taiwan notably detracted from the fund's relative returns. The overweighting of China was an additional negative factor. Stock selection was positive, however, especially in China.
- At the sector level, selection detracted, with negative returns in information technology (IT), financials and materials offsetting positive stock-picking in consumer discretionary. In terms of sector allocation, the underweighting of IT detracted the most.
- At the stock level, the greatest relative performances came from the positions in **Miniso Group** and **Prada S.P.A**. and the zero weighting in **JD.com**.
- The greatest detractors were our holdings in **Alibaba**, **Bilibili** and **Contemporary Amperex Technology**.

Outlook/positioning

- China's equity markets have rebounded significantly from the lows of late October, driven by multiple policy pivots.
- 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. 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 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 need to pick up to help support economic growth.
- In Taiwan, while there is a chance that the technology cycle will recover this year, we are conscious that market expectations are too optimistic and valuations are stretched. We remain cautious on the industry outlook and will only consider raising our exposure on clearer signs of a cyclical recovery.

Calendar year performance (%)

	Fund	Target	Comparator
2022	-23.6	-22.3	-27.5
2021	-7.1	-9.5	-7.3
2020	43.0	28.2	38.9
2019	25.1	23.8	28.9
2018	-11.8	-14.8	-21.1
2017	45.8	43.8	44.9
2016	6.5	5.4	-1.0
2015	-3.2	-7.4	-3.4
2014	8.3	7.7	2.7
2013	6.2	6.9	9.7

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

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 Golden Dragon (Net TR) index and compared against the Morningstar Greater 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

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.

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.

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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