

## Schroder ISF\* Asian Equity Yield

Fund Manager: King Fuei Lee | Fund update: February 2023

## Performance overview

- Asia Pacific ex-Japan equities declined in February, partly on profit-taking after a strong January. US dollar strength was an additional headwind for index markets, all of which fell over the month.
- China was the weakest performer as uncertainties surrounding the shift away from its 'zero-Covid' policy persisted. A re-escalation in US-China tensions also weighed on sentiment.
- Thailand, Malaysia and South Korea all experienced sharp falls. Indonesia and Taiwan fell only mildly, and thereby materially outperformed the index.
- The fund (C Acc USD) posted a return of -3.8% relative to the benchmark, which returned -6.8%.

## Drivers of fund performance

- Stock selection was the key driver of the fund's superior relative returns.
- On a regional basis, selection was notably strong in China. Underweight exposure to China and the overweighting of Taiwan also boosted performance.
- At the sector level, the fund benefited from strong selection, particularly in consumer discretionary. Sector allocation also contributed, with the overweighting of information technology a prominent feature.
- The greatest absolute performance contributions came from our holdings in **Lenovo Group**, **Novatek Microelectronics** and **Medibank Private**.
- The weakest absolute performances came from our positions in **Samsung Electronics**, **Techtronic Industries** and **TSMC**.

## Outlook/positioning

- Despite inflation being elevated in the short term, we ultimately expect it to be transitory, owing to the long-term deflationary forces at work (i.e., the 4 D's of ageing Demographics, technological Disruption, income Disparity and still-elevated Debt levels). An environment where inflation is running not too hot or too cold has typically been beneficial for dividend-investing strategies, and we expect this to be supportive of the fund's performance over the medium term.

- The Asia region continues to offer one of the highest dividend yields globally, as well as the best prospects for future dividend growth and surprises. We continue to keep our portfolio diversified across Dividend Cows, Growers and Surprises, ensuring that there will always be categories of dividend stocks that will outperform at different stages of the market cycle.
- On a sector basis, we remain invested in companies that have sustainable dividend growth trajectories. These specifically include sectors such as Taiwan technology (foundries, fabless, and hardware), Indian IT consultancy/software, Australian diversified miners and healthcare, as well as regional financials that are market leaders in their respective geographies.

## Calendar year performance (%)

	Fund	Target	Comparator 1	Comparator 2
2022	-17.3	-17.5	-8.9	-14.0
2021	7.6	-2.8	6.6	3.5
2020	16.3	23.0	1.3	11.6
2019	14.3	20.3	14.6	16.6
2018	-12.7	-14.5	-9.5	-12.0
2017	30.2	36.9	25.8	28.2
2016	8.0	7.5	9.3	7.1
2015	-8.8	-9.6	-16.7	-10.2
2014	8.3	1.5	3.2	4.4
2013	-2.1	3.9	3.2	3.8

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc USD share class, as at 31 December 2022. The target benchmark is MSCI AC Asia Pacific ex-Japan Index, comparator 1 is MSCI AC Asia Pacific ex-Japan High Dividend Yield Index and comparator 2 is Morningstar Asia Pacific ex-Japan Income sector.

Note: The target benchmark for the fund had been changed to the MSCI AC Asia Pacific ex Japan with effect from 30 April 2021. Prior to this date, the target benchmark was the MSCI AC Pacific ex Japan, and the target benchmark performance has been chain linked to this index.

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

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**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.

**Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

**Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.

**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.

**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.

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

**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.

**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.

**IBOR:** 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.

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