Schroders

Marketing material
for professional clients only

Schroder ISF* Emerging Europe

Fund Managers: Rollo Roscow and Mohsin Memon | Fund update: October 2021

Performance overview

- Emerging European equities generated a strong gain in euro terms in October. The MSCI EM Europe 10-40 Index was up and outperformed the MSCI Emerging Markets Index.
- Russia was the best performing index market, benefiting from energy price strength. Poland also posted a strong gain and outperformed.
- By contrast, the Czech Republic, Turkey and Greece recorded modest declines and underperformed.
- The fund delivered a positive return and outperformed the MSCI Emerging Markets Europe 10-40 Index.

Drivers of fund performance

- Country allocation was positive, largely due to the off-benchmark allocation to Kazakhstan. The underweight to the Czech Republic and the off-benchmark allocation to Georgia were also positive. Conversely, the overweights to Turkey and Russia detracted slightly.
- Stock selection was positive, notably in Poland where the off-benchmark holdings in **Mbank** and **Bank Millennium** added the most to relative returns. The zero-weight to e-commerce company Allegro also proved beneficial. Stock selection in Greece, overweight to **National Bank of Greece** added value. By contrast, stock selection in Russia, overweight to gold miner **Polyus** and gas producer **Novatek**, was negative.

Outlook

- Global liquidity growth continues to fall and the US Federal Reserve (Fed) has confirmed it will begin tapering in November. Persistent bottlenecks and energy price rises mean inflation is proving stickier than expected. Combined with fiscal drag, we could soon be moving into a stagflationary environment.
- After a strong start, vaccination rates in many regional countries have slowed. As a result these markets are vulnerable to future waves of Covid-19 through the winter season. Russia is the notable laggard with just 34% of the population fully vaccinated and daily new cases have picked up. Poland and Hungary, where the fully vaccinated represent 53% and 60% of the population respectively, are also seeing daily new cases accelerate.
- Inflation has been rising across a number of regional markets, notably in Central Eastern Europe. As a result, central banks across the CE3 markets have started to tighten policy rates, following Russia's central bank which began a hiking cycle earlier this year.

Calendar year performance (%)

Year	Fund	MSCI Emerging Markets Europe 10-40 Index Net TR
2019	36.7	32.5
2018	-6.4	-6.7
2017	11.6	5.7
2016	35.3	29.5
2015	1.5	-5.0

Source: Schroders, as at 31 December 2020. 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 2020. 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.
*2020 calendar year performance not available at time of publishing, please see the December factsheet.

*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: MSCI Emerging Markets Europe 10-40 Index. 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.