Schroders

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Schroder ISF* Emerging Markets Equity

Fund Managers: Tom Wilson and Robert Davy | Fund update: October 2021

Performance overview

- Emerging market (EM) equities, as measured by the MSCI Emerging Markets Index, delivered a positive return in October.
- Egypt was the best performing index market, while Peru also generated a double-digit return in US dollar terms. Indonesia, Russia, Qatar and Saudi Arabia outperformed on energy price strength. China also finished ahead of the broader index, driven by a pickup in several internet and e-commerce stocks that were negatively impacted by regulatory action earlier this year.
- By contrast, Brazil fell and was the weakest index market owing to concerns over the fiscal outlook, and as the central bank continued to tighten policy in response to accelerating inflation. India and South Korea underperformed on weak third-quarter earnings.
- The fund recorded a positive return and outperformed its benchmark, the MSCI Emerging Markets Index.

Drivers of fund performance

- Country allocation was negative with the overweight to Brazil the largest drag on relative returns. The underweight to China and the overweight to South Korea were also negative. By contrast, the overweight to Russia and the underweight to India were positive.
- Stock selection underpinned excess returns, primarily in China and South Korea. In China, the overweights to car manufacturer **Great Wall China** and solar-cell producer **LONGi Green Energy Technology** boosted returns. In South Korea the overweights to **LG Chem** and internet search company **Naver** were the largest contributors. Conversely, stock selection in Brazil, overweight to digital payments processor **Pagseguro Digital**, 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.
- Vaccine penetration across EM has improved markedly, which should support a return to normality and reduce the likelihood of Covid-driven restrictions or economic impediments, positively impacting growth and addressing supply chain bottlenecks.
- From a Chinese policy standpoint, the lagged effects of previous tightening are now taking effect. There has also been broad based regulatory action. However, the prospect of policy easing over the coming months is increasing given current economic conditions and a likely desire for benign economic conditions ahead of the 20th Party Congress in October 2022. We may also see an easing in regulatory news flow and action.
- Aggregate EM valuations are full compared to history, but are cheap relative to developed markets. EM are more resilient to Fed tapering than in the past, while EM currencies are generally cheap and real yields relatively attractive.

Calendar year performance (%)

Year	Fund	MSCI Emerging Markets Net TR
2020	22.1	18.3
2019	21.8	18.4
2018	-16.7	-14.6
2017	40.1	37.3
2016	9.2	11.2

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.

*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.

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.

Currency risk / hedged share class: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

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.