Schroders

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Schroder ISF* Emerging Markets Equity

Fund Managers: Tom Wilson and Robert Davy | Fund update: February 2023

Performance overview

– Emerging market (EM) equities posted negative returns in February and underperformed global equities. A re-escalation in US-China tensions weighed on sentiment while more resilient-than-expected macroeconomic data out of the US raised the prospect of further rate hikes. Against this backdrop the dollar strengthened, which was an additional headwind for EM.

– The fund recorded a negative return and performed broadly in line with the MSCI EM Index.

Drivers of fund performance

– Country allocation had a largely neutral effect as the negative effect from the zero-weight to Turkey and underweights to India and Indonesia offset the positive impact of our overweight to Greece and our cash position.

– Stock selection was slightly negative. In Brazil, our off-benchmark positions in **3R Petroleum Oleo e Gas** and **XP**, as well as our overweight to **Petro Rio**, were negative. In Taiwan, the overweight position in **TSMC** also weighed on returns.

– Selection in India was positive, owing mainly to strong performance from our overweight to **ICICI Bank** and off-benchmark position in **HDFC Bank**.

Outlook

– The combination of disinflation in the US, an easing energy crisis in Europe and the re-opening of China's economy have helped to ease investor concerns over the outlook for this year. Nonetheless, a high degree of uncertainty over global growth and inflation persists.

– The risk that rates stay higher for longer than markets currently anticipate cannot be ignored.

– For EMs, the recovery in China's economy from a low base is supportive. However, slower global trade will be a headwind for growth this year, and broad-based monetary tightening is a further drag.

The US dollar is expensive compared with its history on a real effective exchange rate (REER) basis. EM yields and currencies in general remain at attractive levels.

– EM equity valuations are close to the historical median on a price-book basis, and cheap on a dividend yield basis. With the exception of India and some smaller markets, EM valuations at the market level remain reasonable, in our view.

Calendar year performance (%)

Year	Fund	MSCI Emerging Markets Net TR
2022	-23.9	-20.1
2021	-5.6	-2.5
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
2015	-13.1	-14.9
2014	-4.3	-2.2
2013	-2.1	-2.6
2012	19.7	18.2

Source: Schroders, as at 31 December 2022. 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 2022. 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. Please see the respective fund factsheets for the performance of other share classes.

*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.