Schroders

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Schroder ISF* Asian Opportunities

Fund Manager: Toby Hudson | Fund update: October 2021

Performance overview

- Asia ex Japan equities rose in October, driven by positive earnings guidance and an ongoing decline in new Covid cases in many countries. Indonesia was among the strongest index markets and rose strongly while China outperformed after real estate group Evergrande made an interest payment on its debt, allaying fears of contagion. Korea was the weakest index market on profit-taking, although losses were mitigated by gains from technology stocks.
- The fund produced a positive absolute return and outperformed the target benchmark, the MSCI AC Asia ex Japan index.

Drivers of fund performance

- At the sector level, sector allocation was the key contributor to the fund's positive relative returns, largely due to the overweighting of consumer discretionary. Stock selection had a neutral effect. Although selection was weak in consumer discretionary, it was offset by positive stock picking in industrials, materials and consumer staples.
- At the country level, stock selection was a positive factor and was strongest in Hong Kong and South Korea. Country allocation was mildly negative, with the underweighting of China the main detractor.

Portfolio Activity

- We added to the position in **China Mengniu Dairy**. The company has demonstrated resilience despite the slowdown in consumption and rising input costs, which it should be able to offset with higher prices.
- We added to the holding in **Meituan,** given its healthy revenue growth and potential margin expansion over the long term.
- We trimmed the holding in **Samsung Electronics** amid concerns about component shortages affecting production. We also took some profits and reduced our large overweight position in **Taiwan Semiconductor Manufacturing**.

Outlook/positioning

- The continued uptick in inflationary pressures globally and some doubts about the sustainability of growth have resulted in a more negative, potentially 'stagflationary' outlook for economies.
- Chinese listed equities have confronted many headwinds this year – notably the regulatory clampdown and the potential Evergrande default. Given the opacity of the authorities' decision-making process, only time will tell how radical a reworking of corporate China may be underway.
- We remain constructive on the longer-term outlook for many companies in China and have been adding very selectively to positions during the current sell-off.
- Elsewhere, we remain positive on the longer-term potential of many sectors in India. Nevertheless, after the Indian market's performance this year, valuations have become stretched, and as a result, we have trimmed some positions.
- More generally, given the uncertain outlook for growth and inflation in coming quarters, portfolio construction remains focused on maintaining a healthy level of diversification. This is spread across growth and value ideas, or those that might benefit from higher inflation expectations and rates, alongside those longer-term growth ideas that are less cyclically exposed.

Calendar year performance (%)*

Year	Fund	Target	Comparator
2020	26.3	25.0	25.9
2019	22.8	18.2	19.2
2018	-15.8	-14.4	-17.1
2017	50.8	41.7	40.8
2016	5.6	5.4	3.6

Source: Schroders, as at 31 December 2020. Fund performance is net of fees, NAV to NAV with net income reinvested, USD C Acc shares. *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

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 factsheet for other share classes. Target benchmark is MSCI AC Asia ex Japan, comparator is the Morningstar Asia ex Japan Equities sector.

Risk considerations

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: 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.

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.

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