Schroders

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Schroder ISF* Asian Opportunities

Fund Manager: Toby Hudson ~ Fund update: February 2023

Performance overview

- Asia ex-Japan equities declined in February, driven lower mainly by weakness in China, which experienced some profit-taking after recent strong performance. A re-escalation in US-China tensions also weighed on sentiment, while US dollar strength was an additional headwind.
- Thailand, Malaysia and South Korea all experienced sharp falls as investors took profits following strong performance in January. While Indonesia and Taiwan fell mildly, and therefore outperformed.
- The fund produced a negative return, but outperformed the target benchmark, the MSCI AC Asia ex Japan index.

Drivers of fund performance

- At the sector level, selection was mildly positive overall, most notably in financials, while it was weak in industrials. Sector allocation also contributed positively.
- At the market level, stock selection boosted returns, particularly in India. However, in terms of allocation, underweight exposure to Taiwan weighed on performance.

Portfolio Activity

- We added to the position in construction equipment maker **Sany Heavy Industry** owing to the potential recovery in house building and infrastructure spending. We topped up the holding in **TSMC** on share price weakness, given the possibility of a bottoming out of the technology cycle in the second half of 2023. An addition was also made to **Alibaba** as it is well placed to benefit from the ongoing consumption recovery and advertising spending in China.
- We continued to reduce the holding in Korean internet platform **Naver** owing to the mature nature of its core search business and questions around the firm's capital allocation to new business areas. We also took further profits in luggage maker **Samsonite International** following its strong share price performance as global travel picks up.

Outlook/positioning

- Markets have moved to price in an additional interest rate hike by the US Federal Reserve this year. Furthermore, the timing of rate cuts has been pushed out, as rates may need to stay 'higher for longer' in order to squeeze out inflation.
- In China, it is now clear that Covid case numbers have peaked and society is rapidly moving on after two to three years of severe disruption. Meanwhile, investors are closely watching the upcoming National Party Congress in March for further signs of policy support for the cyclical recovery.
- We continue to see attractive long-term, bottom-up opportunities in India in our preferred stocks, notably in the private sector banks. However, it seems likely the market could continue to lag its more cyclical North Asian rivals in the near term, so we remain selective in our approach.
- Markets have now pulled back by approximately 10% from their January highs, and aggregate valuations are back to slightly below longer-term average levels. To see a renewed rally from here, we need to see a sustained Chinese consumer recovery and a broadening out of the recovery.
- We remain very selective, given the likely uneven nature of the recovery in the region, and we are being disciplined about valuations. We will look to take profit in stocks where we feel the cyclical recovery is fully priced in.

Calendar year performance (%)

Year	Fund	Target	Comparator
2022	-19.2	-19.7	-21.4
2021	-3.6	-4.7	-3.9
2020	27.3	25.0	25.9
2019	23.8	18.2	19.2
2018	-15.1	-14.4	-17.1
2017	52.0	41.7	40.8
2016	6.4	5.4	3.6
2015	-3.6	-9.2	-7.2
2014	7.4	4.8	4.6
2013	1.7	3.1	4.4

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Source: Schroders, as at 31 December 2022. Fund performance is net of fees, NAV to NAV with net income reinvested, USD C Acc shares.

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