Schroders

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# Schroder ISF* Emerging Asia

**Fund Manager: Louisa Lo | Fund update: October 2021**

## Performance overview

- Emerging Asian equities rose in October, driven by positive earnings guidance and an ongoing decline in new Covid cases in many countries.
- Indonesia rose strongly. China finished ahead of the broader index, driven by a pickup in several internet and e-commerce stocks that were hurt by regulatory action earlier this year. Investors were also encouraged after real estate group Evergrande made an interest payment on its debt, allaying fears of contagion.
- South Korea was the weakest index market due to profit-taking, although losses were mitigated by gains from technology stocks.
- The fund posted a positive return and outperformed the target benchmark.

## Drivers of fund performance

- Stock selection was the key driver of the fund's positive relative returns.
- At the sector level, selection was notably strong in materials, information technology, industrials and financials. Sector allocation weighed on returns, however, largely because of underweight exposure to consumer discretionary and the overweighting of materials.
- At the country level, stock selection in China was the key driver of returns. Exposure to off-benchmark Hong Kong was an additional positive factor.
- At the stock level, the greatest relative performance came from the positions in **Contemporary Amperex Technology**, **HSBC** and **LONGi Green Energy Technology**.
- The greatest detractors to relative returns came from our holding in **SK IE Technology**, **Samsung Electronics** and the zero weighting in **Meituan**.

## Outlook/positioning

- Inflationary pressures appear to be building as confidence in the growth outlook has faltered due largely to issues in China. Consequently, a more negative, 'stagflationary' outlook for economies has emerged.
- Covid cases and related lockdowns remain a key factor in many Asian countries, including China, where the government embraces a zero-tolerance approach. The headwinds faced by Chinese-listed equities this year have cast a long shadow over other markets. These headwinds include the regulatory clampdown on several new economy sectors, and the slowdown in the economy partly due to the Evergrande shakeout.
- Meanwhile, India seems to be capitalising on some of the fallout from the weaker China market. A healthy rebound in domestic activity in recent months is helping the earnings recovery. Additionally, local capital markets are seeing several high-profile initial public offerings in the online sector that are reinforcing the catch-up potential offered in India across many parts of the economy. But after the performance seen this year, valuations have become stretched.
- We believe markets will remain challenged over the next few months, given the large number of macroeconomic concerns. With the uncertain outlook, portfolio construction remains focused on maintaining a healthy level of diversification across growth and value ideas. We favour those stocks that might benefit from higher inflation expectations and rates, alongside those longer-term growth ideas that are less cyclically exposed.

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

## Calendar year performance (%)

| | Fund | Target | Comparator |
|---|---|---|---|
| 2020 | 36.6 | 28.4 | 25.9 |
| 2019 | 19.9 | 19.2 | 19.2 |
| 2018 | -10.8 | -15.5 | -17.1 |
| 2017 | 43.5 | 42.8 | 40.8 |
| 2016 | 10.3 | 6.1 | 3.6 |

Source: Schroders, as at 31 December 2020. Fund performance is net of fees, NAV to NAV with net income reinvested, USD A Acc shares. The target benchmark is MSCI Emerging Markets Asia (Net TR), and comparator is Morningstar Asia ex Japan Equities sector.

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.

## 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.

**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.

**Onshore renminbi currency risk:** The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. Currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.

**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.

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