

Schroder ISF* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: October 2021

Performance overview

- Hong Kong produced positive absolute returns but was relatively weak compared with China. The Chinese market was driven by a pickup in several internet and e-commerce stocks that were hurt by regulatory action earlier this year. The market was also boosted after real estate group Evergrande made an interest payment on its debt, allaying fears of contagion.
- The fund posted a positive return and outperformed the target benchmark.

Drivers of fund performance

- At the sector level, stock selection had a mildly positive impact on the fund's positive relative returns. Selection was strong in energy and financials, but weak in healthcare and real estate.
- Sector allocation had a neutral effect, with the positive impact from the overweighting of consumer discretionary offset by the overweighting of energy.
- At the regional level, stock selection was positive in Hong Kong. Overweight exposure to China negatively affected returns.
- At the stock level, the greatest relative performance came from the underweight position in **AIA Group** and the holdings in **Standard Chartered** and **Alibaba Group**.
- The greatest detractors were our positions in **Hutchmed** and **Crystal International** and the zero weighting in **Hang Seng Bank**.

Outlook/positioning

- Hong Kong markets have been relatively weak this year due to the tightening of Chinese regulatory measures. These have targeted sectors that are mainly listed in Hong Kong, including the internet, education, property and Macau gaming sectors. Certain local stocks, on the other hand, have fared better, with defensive sectors holding up well.

- We are increasingly cautious on property developers in Hong Kong, given that the government is likely to take a more proactive approach in tackling the long-standing property price problem. Increasing property supply and policy direction will likely cap the share prices of developers involved in mass market projects.
- Regulatory changes remain a key area to watch. In our view, recent policy shocks represent a shift in direction, with the government prioritising social fairness and sustainability over growth. While policy changes usually create transitional pain, we expect them to be positive for growth in the long term.
- We believe the market will remain challenged over the next few months, given the large number of macroeconomic concerns. With the uncertain outlook, portfolio construction remains focussed on maintaining a healthy level of diversification across growth and value ideas. We also favour those stocks 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	21.2	7.5	11.4
2019	15.4	11.2	12.4
2018	-14.1	-10.1	-12.7
2017	51.6	37.4	41.9
2016	0.5	4.1	0.7

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD A Acc share class, as at 31 December 2020. The target benchmark is the FTSE Hong Kong (Net TR) index and the comparator is the Morningstar Hong Kong Equity 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.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Concentration risk: The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

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

Important Information: This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A. An investment in the Company entails risks, which are fully described in the prospectus. **Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.** Schroders has expressed its own views and opinions in this document and these may change. Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. This document is issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799. For your security, communications may be taped or monitored. **Third Party Data Disclaimer:** FTSE International Limited ("FTSE") © FTSE 2019. FTSE® is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE International Limited under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.