Schroders

Marketing material for Singapore Investors only

Schroder Asian Growth Fund

Investment Report

April 2024

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

Schroder Investment Management (Singapore) Ltd.
Registered No. 199201080H.
Regulated by The Monetary Authority of Singapore.

Overview

Performance (as at end of April 2024)

Total returns in SGD

	1 mo. %	3 mo. %	YTD %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Portfolio	1.8	12.2	6.5	2.8	-8.6	1.1	7.9
Benchmark**	2.3	11.9	7.2	9.9	-6.4	1.8	5.6
Difference	**-0.5**	**+0.3**	**-0.7**	**-7.1**	**-2.2**	**-0.7**	**+2.3**

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 amounts originally invested.

Source: Schroders, Morningstar. Please note that past performance is not indicative of future returns. Performance above reflects that of the Fund's SGD Share Class.

* Inception date: 8th May 1991.

** On 01/03/2016 the benchmark changed from MSCI AC Far East ex Japan (NDR) to MSCI AC Asia ex Japan (NDR). The full track record of the previous index has been kept and chain linked to the new one.

Market Summary

Asian equities achieved modest growth in April, with share price gains in China, Hong Kong and Singapore offsetting prices falls in Indonesia, South Korea, and the Philippines. China was the strongest market in the Asia ex Japan region amid improved sentiment towards the country's stock market. However, lingering concerns about the strength of the recovery in the world's second-largest economy capped market gains. There continue to be worries about the country's real estate crisis and unemployment rate, particularly amongst younger people.

Share prices in Hong Kong also moved higher in April, driven by foreign investors seeking lower-valued Hong Kong-listed shares that pay higher dividends as optimism towards companies with exposure to mainland China improves. Investors are also shifting funds away from other Asia-Pacific markets such as Japan or India where currencies are under pressure from a stronger US dollar. Stocks in Singapore also moved higher, with positive economic data helping to boost investor sentiment.

Indonesia was the worst-performing index market after the country's central bank delivered a surprise rate hike to support the currency and tame the country's inflation rate. Stocks in Korea were also weaker in April as weakness in the tech sector weighed on returns amid ongoing investor worries about the global economic outlook and inflation.

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

Performance Review

Asian equities rose further in April, with China and Hong Kong leading in regional performance, abetted by some strong reported earnings and anticipation for further policy support in the April politburo meeting. Meanwhile, Taiwan and Korea underperformed amid some consolidation after spectacular YTD gains. Against such backdrop, the fund registered a positive return, but underperformed the target benchmark during the period. At the regional level, overweight exposure in Hong Kong and underweight in Korea added to relative returns. However, this was offset by negative selection in Hong Kong, Korea, and negative allocation from underweight in China. From a sector perspective, stock selection in real estate, communication and industrials were notably positive, while selection in technology and consumer discretionary dragged.

At the individual stock level, our insurance holdings across China and Hong Kong were among the key contributors, with share prices recovering from depressed levels. In particular, China Pacific Insurance rose on the back of improving investor sentiment around China during the month. Regional insurer, AIA, after some major sell-offs by foreign investors over the past year, also rebounded sharply from depressed valuations upon reporting strong new business growth in 1Q24, lending further support to share price performance. Outside of financials, India's retail mall operator, Phoenix Mills, outperformed on improving same-store sales growth, while the higher hotel occupancy rates also brought positive RevPAR growth to its assets. In China, an earlier-than-expected "Dungeon and Fighter" mobile game launch and announcement of increased capital returns saw internet name, Tencent, trading higher for the month. Within consumer discretionary, Taiwanese bicycle manufacturer, Merida, registered robust gains amid better-than-expected 1Q24 sales, which could mark the beginning of a recovery in fundamentals in 2H24 following the destocking cycle.

Conversely, our semiconductor holdings struggled through the period. Taiwanese fabless IC design house, Mediatek, declined after its strong YTD performance and investor concerns over YoY growth moderating from the high base last year. Similarly, delay in rollout of high bandwidth memory chips to Nvidia and AMD lent excuse for investors to take profit in Korean semiconductor memory name, Samsung Electronics, following its robust share price gains YTD. Meanwhile, Indonesia's Bank Mandiri, also detracted due to concerns over slower industry loan growth and currency weakness of the Rupiah against the dollar given the more hawkish tone by the Fed amid still strong inflation data. In India, private hospital operator, Apollo Hospitals, saw its share price decline after the sale of its stake in subsidiary Apollo HealthCo to PE firm Advent International. The subsidiary was merged with pharmacy distributor Keimed, but with combined valuations coming in below market expectations. In Korea, EV battery material name, LG Chem, detracted as concerns over weak battery demand persists, while the outlook for its petrochemical division remains uncertain.

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

Market Outlook

After a difficult start to the year, broader Asian equity indices have continued to rebound and were modestly higher in April, helped by an improvement in sentiment towards the China markets. This was despite a pullback in global equities during the month. Expectations for US monetary policy continue to ebb and flow with incoming data, and April saw a further reduction in the number of rate cuts priced into markets. This reflected stronger-than-expected economic growth and inflation data. Since the beginning of 2024, Fed fund futures have moved from pricing in six quarter-point interest-rate cuts this year to only one and a half currently. Markets have even started to weigh the possibility that the US Federal Reserve (Fed) might be forced to hike again, should the monthly data strengthen from here. Despite this much more hawkish outlook, sentiment towards equity markets remains fairly upbeat as investors continue to discount a soft landing for the US economy. Consensus opinion is that growth will steadily slow in 2024, but there will be no recession and inflation will gradually ease towards the Fed's 2% target. Equity markets have also been buoyed by better-than-expected earnings and ongoing optimism about the AI theme globally, with bellwether stock Nvidia up about 75% year to date, even after a modest correction in April. This 'goldilocks' economic scenario – growth not too hot, or too cold – and the momentum behind large-cap technology stocks provide a favourable backdrop for Asian markets. Export demand, especially in the key technology sectors, remains well underpinned. A stronger US dollar and higher-for-longer US interest rates do present some headwinds for the region. This is especially the case for smaller markets, such as Indonesia and the Philippines, where capital flows can be more volatile. After very strong upward momentum in the first quarter of this year, we have recently seen consolidation in some regional technology stocks, which resulted in the Korean and Taiwanese markets underperforming modestly in the last month. Conversely, China and Hong Kong have taken the lead in Asia, after lagging in the earlier part of the year.

In addition to the AI theme, investors are positioned for a broad improvement in demand and pricing for semiconductors and IT products in the coming quarters. End-market demand remains fairly soft, and inventories are still above average levels in some parts of the supply chain. However, recent comments from companies in the industry point to a stabilisation in the Chinese smartphone market and optimism about a modest rebound in personal computer and mainstream server demand through 2024. As inventories normalise, a more regular ordering pattern and improved pricing backdrop should allow for renewed top line growth and better margins. Consumer electronics companies are starting to discuss a new generation of AI-enabled PCs and smartphones that may also help to encourage shorter replacement cycles and push up selling prices over time. As a result, despite recent volatility, we continue to think that the underlying structural drivers for semiconductors will remain strong in the coming years and valuations for large-cap industry leaders within the sector remain attractive. At the same time, however, we do have concerns that the recent excitement over the revenue potential for some companies in the AI supply chain may be excessive. This reflects heavy retail investor trading volumes in Taiwan, in particular, which have pushed valuations to very elevated levels.

In addition to gains in semiconductor memory stocks, Korean equities have found support from hopes that a new government-led plan to improve local corporate governance – the "Corporate Value-Up Programme" - could trigger a market re-rating. A similar initiative in Japan is credited with driving more market friendly behaviour by corporates in recent quarters and helping deliver strong equity-market gains. The upside potential in Korea could be significant, given that

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

historically the market has suffered from a material corporate governance discount against international peers. However, making broad generalisations about the potential 'winners' at this stage is difficult. We are yet to see detailed proposals from the government and regulators, and the response from the key industrial 'chaebol' groups is unlikely to be uniform, given their different ownership structures and internal priorities. Bottom-up, stock-by-stock assessments will be key to picking the real beneficiaries.

Indian equities have also performed very strongly in recent months. Sentiment towards the local economy and its longer-term potential remains very positive at a time when China's fortunes are increasingly being questioned by investors. Healthy domestic growth, geopolitical tailwinds, the scope to increase market share in global manufacturing at the expense of China and steady domestic fund inflows are all positive factors. Valuations remain elevated in many sectors, so this positive outlook is well-discounted today – especially for small and mid-cap stocks that have been the focus of domestic buying, and where expansion in valuation multiples is most marked. We continue to see strong longer-term fundamentals in areas such as private-sector banks, healthcare and select consumer-related stocks, which remain core positions in regional portfolios.

While Taiwanese, Indian and certain Korean equities have performed well year to date, and sentiment in some parts of these markets has approached euphoric levels, this has been, until very recently, in stark contrast to the China and Hong Kong markets. Here, local and international investors have been very cautious, pushing valuations close to historic lows. The slump in Chinese markets over the last year has been triggered by disappointing macroeconomic data and a lacklustre policy response. This, in turn, has undermined investor confidence, not only in the near-term cyclical outlook, but also in longer-term growth forecasts. Geopolitical tensions between China and the US also remain a serious overhang. Although most of these concerns remain very real, the Hang Seng Index has bounced by approximately 20% from its January lows, with gains of about 7% in April. This has made China and Hong Kong among the best performers in the region.

After initial optimism over the rebound in economic growth following China's abandonment of Covid controls in late 2022, sentiment steadily deteriorated. The market view has swung towards a new consensus that the cyclical recovery is disappointing and the scope for stimulus is limited as China deals with deleveraging in its real estate sector and addressing local-government debt bubbles. Although we have seen a rapid normalisation in travel patterns and most other aspects of day-to-day life, consumer and business confidence are still fragile after two years of intermittent lockdowns and disruptions. A weak labour market, pressure on household incomes and falling property prices have all heightened concerns and depressed consumption. Although luxury spending has been more robust – as seen in the healthy results in the last year from leading European brands – 'down trading' is apparently common in the mass market, where the majority of consumers remain more cautious. Perhaps most importantly for the Chinese economy, the property market and the broader construction industry continue to deteriorate. Sales volumes have collapsed and prices are under pressure as buyers step back from the market and deflationary expectations set in. Developers are reluctant to start new construction projects, or are unable to, given their severe cash constraints. Many of the largest private players are facing solvency issues that are further undermining confidence in the pre-sale market as project completions are delayed in many cities. Given the huge scale of the

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

construction industry, and all the related activities across China, this weakness remains a major headwind for broader economic growth. Property is also the largest store of household savings, so falling prices are likely dampening consumer confidence. Manufacturing industries, meanwhile, have also experienced a slowdown, reflected in much weaker recent Chinese export data, which is acting as a drag on private investment spending and job creation across the economy.

Given these very visible headwinds for growth, the debate among investors in recent months has moved away from China's cyclical upside potential towards a refocus on longer-term structural issues. These include a shrinking working-age population, the large debt overhang at the local government level, property market difficulties and elevated geopolitical risks; all are contributing to a more deflationary environment. Investors are impatient for renewed policy stimulus from the Chinese authorities to underpin demand, and a shortage of concrete policy measures in recent months has contributed to the market weakness. We have seen reductions in interest rates and an easing of downpayment requirements for mortgages. Additionally, the government has approved an extra borrowing quota to finance infrastructure investment. However, these measures are still deemed too small, given the scale of the problems. The drip feed of modest policy easing appears to have done little to shift broader consumer confidence and buyer sentiment towards the property market. We continue to expect further targeted stimulus measures in the coming months to provide an element of downside protection for the economy. However, there is little evidence currently that the authorities are considering much more aggressive fiscal measures to kick-start consumption and investment.

Despite the weaker headline macroeconomic data and property market troubles, we have felt for some time that after such a sharp de-rating, the China and Hong Kong equity markets were overly negative on the outlook. The operating performance from the local equities we own, as reflected in recent results, has been more encouraging than the macroeconomic headlines would have one believe. The strongest operating performance has been in the travel and leisure-related sectors – hotels, gaming, restaurants, luggage and beverage companies. Here, the rebound in activity and earnings in China has broadly met, or in some cases exceeded, initial expectations in the last year. E-commerce and online advertising sales have also seen a modest rebound, helping the key large-cap online players deliver improved bottom-line growth, aided by greater cost discipline and, in some cases, aggressive share buybacks. All of this points to a broader economy, outside of the property development industry, that may be sluggish, but is not in a downward spiral. Until very recently, in most cases, stock prices for these companies have remained under pressure, despite the healthier earnings. With the recent bounce back in the local markets, we are encouraged that the indiscriminate capital outflows may be coming to an end. It appears that the market is at last starting to differentiate more clearly between stronger and weaker businesses, rewarding those that can continue to deliver growth and dividends for shareholders.

We share many investors' concerns about the structural headwinds China faces. A 'new normal' of much slower nominal GDP growth in China in coming years is our base case. However, given the extremes of negative sentiment, there is still room for the authorities to surprise positively with better-coordinated policy support going forward. This was evident again in April, when markets were seemingly encouraged by talk of a more concerted central government plan to deal with

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

excess supply in the residential property market. In addition, better-managed businesses with stronger franchises can still deliver growth, even against a softer economic backdrop. There have also been signs of more 'self-help' among Chinese corporates recently, with a notable increase in dividend payouts and buyback activity, which is encouraging and may offer more downside support for stocks over time. Even after the recent rebound, share prices in many sectors in China and Hong Kong are not far off levels seen in the depths of the Covid period when the earnings outlook was far more uncertain. Given this mismatch in share-price performance and operating fundamentals, and the still very low expectations for the China and Hong Kong markets, we continue to see attractive opportunities in selective areas on a bottom-up basis.

Aggregate valuations for regional equities are close to longer-term average levels. As usual, there remains a significant spread in multiples between those stocks and sectors in favour today, and the apparently 'deep value' on offer in less popular areas. Markets such as India and Taiwan that performed strongly over the last year are trading at marked premiums to their historical averages and expectations are very elevated. At the same time, the China and Hong Kong indices are sitting close to all-time low multiples as sentiment remains depressed. Gains in Asian equities generally require a more stable global macroeconomic backdrop, a less hawkish Fed, reduced volatility in US-China relations and a more positive Chinese cyclical outlook. These factors are important to attract flows back into the market from foreign investors. Visibility remains limited on many of these fronts – most importantly, the China policy backdrop in 2024 and the impact of the upcoming US elections. Nevertheless, we remain hopeful of a continued gradual recovery in activity in key stocks and sectors in China, and a rebound in technology sector fundamentals through 2024. This could underpin our preferred Asian equities over the medium term. In the meantime, we remain very selective in our exposure, given the continued uneven nature of the recovery in the region, and disciplined about valuations.

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

Important Information

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.

China country risk: Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.

Counterparty risk: The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund, potentially creating a partial or total loss for the fund.

Currency risk: The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses.

Derivatives risk: A derivative may not perform as expected, and may create losses greater than the cost of the derivative.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty and operational risk.

Equity risk: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news.

Leverage risk: The fund uses derivatives for leverage, which makes it more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss.

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.

Operational risk: Failures at service providers could lead to disruptions of fund operations or losses. Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong 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.

Capital risk / distribution policy: the expenses of this share class are paid out of capital rather than out of investment income. Capital growth will be reduced and in periods of low growth capital erosion may occur.

©Morningstar 2024. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

This advertisement has not been reviewed by the Monetary Authority of Singapore.

This is prepared by Schroders for information and general circulation only and the opinions expressed are subject to change without notice. It does not constitute an offer or solicitation to deal in units of any Schroders fund (the "Fund") and does not have regard to the specific investment objectives, financial situation or the particular needs of any specific person who may receive this. Investors may wish to seek advice from a financial adviser before purchasing units of any Fund. In the event that the investor chooses not to seek advice from a financial adviser, he should consider whether the Fund in question is suitable for him. Past performance of the Fund or the manager, and any economic and market trends or forecast, are not necessarily indicative of the future or likely performance of the Fund or the manager. The value of units in the Fund, and the income accruing to the units, if any, from the Fund, may fall as well as rise. Investors should read the prospectus, available from Schroder Investment Management (Singapore) Ltd or its distributors, before deciding to subscribe for or purchase units in any Fund. Funds may carry a sales charge of up to 5%.

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.

Important Information

The CPF interest rate for the CPF-OA is based on the 3-month average of major local banks' interest rates. Under the CPF Act, the CPF Board pays a minimum interest rate of 2.5% per annum when this interest formula yields a lower rate. The interest rate for the Special and Medisave Accounts ("SMA") is pegged to the 12-month average yield of 10-year Singapore Government Securities (10YSGS) plus 1%, or 4% p.a. whichever is higher, reviewed quarterly. The interest rate to be credited to the Retirement Account ("RA") is the weighted average interest rate of the entire portfolio of Special Singapore Government Securities (SSGS) the RA savings are invested in which earn a fixed coupon equal to the 12-month average yield of the 10YSGS plus 1% at the point of issuance, or 4% p.a. whichever is the higher, reviewed yearly. The Singapore government will maintain the 4% p.a. minimum rate for interest earned on all SMA and RA monies until 31 December 2024. Thereafter, interest rates on all CPF account monies will be subject to a minimum rate of 2.5% p.a.. In addition, the CPF Board will pay an extra interest rate of 1% per annum on the first S$60,000.00 of a CPF member's combined balances, including up to S$20,000.00 in the CPF-OA. The first S$20,000.00 in the CPF-OA and the first S$40,000.00 in the CPF-SA are not allowed to be invested under the CPFIS. Investors should note that the applicable interest rates for each of the CPF accounts may be varied by the CPF Board from time to time.

Schroder Investment Management (Singapore) Ltd
138 Market Street #23-01 CapitaGreen Singapore 048946
Telephone: 1800 534 4288 Fax: +65 6536 6626
Registration No.: 199201080H

For illustrative purposes only and does not constitute a recommendation to invest in the Fund.