Schroders

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Schroder ISF* Sustainable Asian Equity

Fund Manager: Wei Wei Chua | Fund update: February 2024

Performance overview

- Asia Pacific ex-Japan equities gained in February and outperformed developed world indices. Markets were buoyed by expectations that the US Federal Reserve would cut interest rates later this year, and cautious investor optimism that the gloom surrounding China might be starting to lift.
- The Chinese market led the way, underpinned by better-than-expected economic data and a cut to one of its key mortgage policy rates. Korea and Taiwan also performed strongly. The former benefited from the announcement of tax reform proposals aimed at incentivising corporates to improve shareholder returns. In Taiwan, continued investor enthusiasm for AI boosted the technology sector once again.
- Australia and New Zealand declined modestly.
- The fund (C Acc USD) posted a return of 3.7% relative to the target benchmark, which returned 4.5%.

Drivers of fund performance

- On a regional basis, stock selection was a positive factor and was notably strong in Taiwan. It also contributed in India and Hong Kong, offsetting weaker returns in Australia. Allocation had a detrimental effect, however, largely due to the underweighting of China.
- At the sector level, selection was slightly weaker overall. While it was positive in consumer discretionary, it weighed on performance in healthcare and communication services. Overweight exposure to healthcare detracted and offset the benefits of the underweight to materials.
- The greatest relative performance contributions came from holdings in **Samsonite International** and **ABB India**, and the zero weighting in **BHP Group**.
- The weakest returns came from positions in **Rio Tinto**, **ResMed** and **Fortis Healthcare**.

Outlook/positioning

- In China, we share many investors' concerns about the structural headwinds that the country faces. However, given the extremes of negative sentiment, there is still room for the authorities to surprise positively with better-coordinated policy support. In addition, better-managed businesses with stronger franchises can still deliver growth, even against a softer economic backdrop. Share prices in many sectors in Hong Kong and China are not far off levels seen in the depths of the Covid restrictions. Given this mismatch in share-price performance against operating fundamentals, we see attractive opportunities in some areas on a bottom-up basis.
- We think the underlying structural drivers for semiconductors in Korea and Taiwan will remain very strong in coming years. Valuations for large-cap industry leaders in the sector remain attractive and we retain significant exposure to our preferred stocks in anticipation of a cyclical recovery.
- In India, valuations remain elevated in many sectors. However, 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.
- Aggregate valuations for regional equities are slightly below longer-term average levels. We remain very selective in our exposure, given the continued uneven nature of the recovery in the region, and disciplined about valuations.

Calendar year performance (%)

	Fund	Target	Comparator
2023	3.5	7.4	5.8
2022	-20.6	-17.5	-18.1
2021	3.3	-2.9	0.3
2020	28.1	22.4	23.0
2019	18.2	19.2	18.7
2018	-10.5	-13.9	-14.6

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. C Acc USD share class, as at 31 December 2023. The target benchmark is MSCI AC Asia Pacific ex-Japan Index, while the comparator is the Morningstar Asia Pacific ex-Japan Category.
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.

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

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

Risk considerations

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: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

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.

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.

Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

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.

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.

IBOR: 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.

Important information

The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). For information on sustainability-related aspects of this fund please go to www.schroders.com.

Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy.

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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.

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