Schroders

Marketing material
for Singapore clients only

Schroder ISF* Sustainable Asian Equity

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

Performance overview

- Asia Pacific ex-Japan markets rose in August as the US Federal Reserve (Fed) gave its clearest indication yet that it was ready to cut interest rates in September. This weakened the US dollar, which is largely beneficial for Asian economies.
- The Philippines, Indonesia, Thailand and Malaysia were the best-performing markets in the benchmark, boosted by local currency appreciation against the dollar. Australia and Taiwan rallied and outperformed. Korea, India and China were the worst performers, with Korea the only market to end the month down.
- The fund (C Acc USD) posted a return of 2.7% relative to the target benchmark, which rose 2.3%.

Drivers of fund performance

- Strong stock selection was the key driver of the fund's positive relative returns over the month.
- On a regional basis, selection contributed notably in India and Australia, and offset weak returns in Korea. Allocation also had a mildly beneficial effect.
- At the sector level, selection was strongest in financials and healthcare, while weak in information technology. Allocation was also accretive, largely due to the overweighting of healthcare.
- The greatest relative performance contributions came from our holdings in **Resmed, Bank Mandiri** and **Ayala Land**.
- The weakest returns came from the positions in in **NHPC**, **Samsonite International** and **New Oriental Education**.

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.

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
2017	-	-	-
2016	-	-	-
2015	-	-	-
2014	-	-	-

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 to any recommendations to invest in the above-mentioned security/sector/country

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

Outlook/positioning

- We share many investors' concerns about the structural headwinds that China faces. A 'new normal' of much slower nominal GDP growth in the country 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. In addition, better-managed businesses with stronger franchises can still deliver growth, even against a softer economic backdrop. Given the 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.
- Within regional technology, the underlying structural drivers for semiconductors should stay strong in the coming years and valuations for large-cap industry leaders within the sector remain attractive. However, we do have concerns that the recent excitement over the revenue potential for some smaller companies in the AI supply chain may be excessive, especially those making less differentiated products. Increasing monetisation and an improving returns profile from AI are necessary for valuations in this sector to hold up. The fund has significant exposure to leading edge foundries and key enablers within the AI value chain.
- In Korea, the proposed "Corporate Value-Up Programme" has been gaining more traction with investors. The initiatives include: the mandatory disclosure of price-to-book and return-on-equity improvement plans for listed companies with prices below book value; the launch of a 'superior shareholder return' index by the Korea Stock Exchange; and shareholder protection as a fiduciary duty for a company's board of directors. We view the programme as a long-term process, not a one-time event. After many false dawns, it appears the needle is finally moving in the right direction towards narrowing the Korea corporate discount. There looks to be more tangible buy-in from corporates, some of which had already unveiled their own 'value-up' strategies before the government announced its plans. This could be in response to the rising influence of activist funds, increasing pressure from investors to focus on shareholder returns and better education on ESG best practices. Recently, President Yoon talked about providing tax benefits to companies that actively increase dividends and promoting a separate low rate of taxation on dividend income for shareholders. In the fund, we own Korean banks and automakers, which are good proxies for improving shareholder returns as they increase dividend payout ratios and cancel treasury shares.
- In India, with Modi and the BJP retaining power after the elections, albeit with a weaker mandate, we expect India's structural reforms and growth story to remain largely intact. We continue to maintain our overweight and see positive longer-term fundamentals in areas such as private sector banks, insurance, healthcare, industrials, utilities and select consumer-related stocks, which remain core positions in the fund.
- 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 presidential election. 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 to any recommendations to invest in the above-mentioned security/sector/country

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.

The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds.

Information herein is believed to be reliable, but Schroders does not warrant its completeness or accuracy.

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%.

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 to any recommendations to invest in the above-mentioned security/sector/country