

## Schroder ISF\* Sustainable Asian Equity

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

## Performance overview

- Asia Pacific ex-Japan markets were mildly higher in July, supported by a weaker dollar and optimism that US interest rates could be cut as soon as September, given the recent softer inflation data.
- Thailand, Malaysia and the Philippines were the best-performing markets in the index, benefiting from improved capital flows as the dollar eased. Australia also rose and outperformed the index.
- Taiwan was badly hit by a sell-off in technology stocks towards the end of the month. China was also weaker as investors worried about the strength of the economy and awaited the outcome of the country's Third Plenum and Politburo meetings.
- The fund (C Acc USD) posted a return of 0.5% relative to the target benchmark, which rose 0.2%.

## Drivers of fund performance

- Favourable allocation was the key driver of the fund's positive relative returns, offsetting weak stock selection.
- On a regional basis, the fund benefited from the overweighting of India and underweighting of Taiwan, while stock selection detracted, mainly in India but partially offset by good selection within Australia.
- At the sector level, allocation contributed, particularly the overweight to health care and technology, although stock selection in both sectors detracted. Selection was also weak in consumer discretionary.
- The greatest relative performance contributions came from our holdings in **MakeMyTrip**, **ResMed** and **SBI Life Insurance**.
- The weakest returns came from the positions in **Kanzhun**, **MediaTek** and **Kia Corp**.

Past performance does not predict future returns. 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 (%)

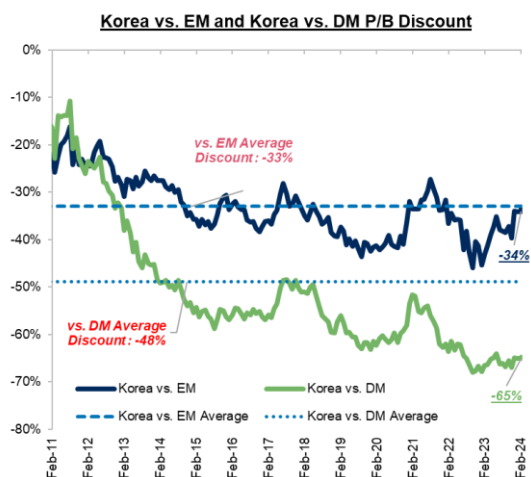
	Fund	Target	Comparator
2023	3.5	7.4	5.8
2022	-20.6	-17.5	-18.1
2021	3.3	-2.9	0.3
2020	28.1	22.4	23.0
2019	18.2	19.2	18.7
2018	-10.5	-13.9	-14.6
2017	-	-	-
2016	-	-	-
2015	-	-	-
2014	-	-	-

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.

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## Outlook/positioning

- In China, we share many investors’ concerns about the structural headwinds that the country faces. A ‘new normal’ of much slower nominal GDP growth in China in the 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 very low expectations for the China and Hong Kong markets, we still 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. 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.
- 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. In the fund, we own Korean banks and auto manufacturers, which are good proxies for improving shareholder returns, as they increase dividend payout ratios and cancel treasury shares.



Source: Bloomberg, February 2024

- In India, valuations remain elevated in many sectors following strong recent performance. However, we continue to maintain our overweight and see positive longer-term fundamentals in areas such as private sector banks, healthcare, industrials, utilities and select consumer-related stocks, which remain core positions in the fund.
- Aggregate valuations for regional equities are close to longer-term average levels. Gains in Asian equities require a more stable global macroeconomic backdrop, a less hawkish US Federal Reserve, reduced volatility in US-China relations and a more positive Chinese cyclical outlook. However, visibility remains limited on many of these fronts. 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

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**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

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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](http://www.schroders.com).

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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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