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Schroder ISF* Sustainable Asian Equity

Fund Manager: Wei Wei Chua | Fund update: Q1 2024

Performance overview

- Asia Pacific ex-Japan equities rallied in the first quarter on growing expectations that major global central banks will begin to cut interest rates in 2024.
- Taiwan was the strongest index market as its technology stocks rose, particularly those with an AI angle. India and the Philippines also performed well. Australia was modestly higher.
- China produced negative returns as concerns about its fragile economic recovery, stricken real estate sector and local-government debt proved to be headwinds. Hong Kong and Thailand also fell.
- The fund (C Acc USD) posted a return of 5.3% relative to the target benchmark, which returned 2.1%.

Drivers of fund performance

- Strong stock selection was the key driver of the fund's positive relative returns.
- On a regional basis, selection was supportive in India and Taiwan. Allocation detracted, largely due to the underweight to Taiwan, which offset the benefits from the underweighting of China.
- At the sector level, selection was particularly strong in utilities, information technology (IT), consumer discretionary and industrials. The underweight positioning in IT and overweighting of healthcare weighed on performance, however.
- The greatest relative performance contributions came from holdings in **NHPC Limited**, **TSMC** and **MakeMyTrip**.
- The weakest returns came from the positions in **WuXi AppTec**, **Rio Tinto** and **HDFC Bank**.

Outlook/positioning

- In China, we share many investors' concerns about the structural headwinds that the country faces. However, 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. Given the mismatch in share-price performance against operating fundamentals, and current very low expectations, we see attractive stock opportunities in selective areas.
- 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.
- Valuations remain elevated in India in many sectors following strong recent performance. However, we continue to see positive longer-term fundamentals in areas such as private sector banks, healthcare and select consumer-related stocks, which remain core positions in regional portfolios.
- 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.

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 2022. 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.

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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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