Schroders

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Schroder ISF* Global Emerging Market Opportunities

Fund Update

September 2020

At a glance

Fund manager: Tom Wilson and Nicholas Field

Performance: The fund returned -2.5% (A Acc Share class) over the month**.

Market overview: The MSCI Emerging Markets Index returned -1.6%.

Largest contributors: The overweight to South Korea was positive.

Largest detractors: The overweight to Brazil was negative.

**Source: Schroders, as at 30 September 2020. Net of fees, bid-bid, with net income reinvested. Index source: MSCI as at 30 September 2020.

Calendar year performance (%)

	Fund Net	MSCI Emerging Markets Net TR
2019	29.8	18.8
2018	-16.4	-14.8
2017	38.6	37.3
2016	8.6	11.2
2015	-13.9	-14.9

Source: Schroders, net of fees, bid-bid, with net income reinvested. A Acc share class as at 31 December 2019.

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.

Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark.

Please see the respective fund factsheets for the performance of other share classes.

What happened in the markets

Global equities retreated in September as risk aversion increased. Covid-19 cases accelerated in Europe, while additional fiscal support was not forthcoming in the US and political uncertainty increased ahead of November's presidential election; both of which contributed to US dollar strength. Emerging market equities registered a negative return, amid weakness in Brazil and Russia. The MSCI Emerging Markets Index decreased in value but outperformed the MSCI World Index.

Indonesia was the weakest index market as ongoing increases in new Covid-19 cases led to the imposition of wider social restrictions. Poland, Hungary and Czechia all underperformed, with negative returns amplified by currency weakness, as new virus cases surged. Russia lagged with crude price weakness, and concern over US foreign policy post the presidential election, weighing on sentiment. Brazil underperformed amid concern over the government's commitment to the spending cap. It is seeking to maintain the majority of its welfare support programmes in 2021, specifically the *Bolsa Familia*. This has led to tensions with the finance ministry, which faces the politically difficult decisions of where to cut spending. China underperformed by a smaller margin, as tensions with the US escalated. The US announced restrictions against Chinese semiconductor company SMIC during the month. China is expected to unveil additional policy support for third-generation semiconductors at its 14th Five Year Plan in October.

By contrast, South Korea and Taiwan posted positive returns, aided by technology sector gains, and outperformed. Saudi Arabia posted a positive return, despite crude oil price weakness. The government eased some travel restrictions during the month. Meanwhile foreign exchange reserves showed early signs of recovery from the falls in the first quarter of the year. India also finished in positive territory. The government made reform progress with the passing of agricultural and labour reforms during the month.

*Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

How the fund performed

The fund returned -2.5% (A Acc share class) and underperformed the MSCI Emerging Markets Index. However, timing differences negatively impacted relative performance; the fund outperformed on a gross underlying basis.

Among our core markets, the overweight to South Korea was the largest contributor. Stock selection in South Africa and Russia also added value. In South Africa, this included the overweights to **Firstrand** and **Multichoice Group**. In Russia, the off-benchmark holdings in financial holding company **TCS Group** and rail freight operator **Globaltrans Invest** added value. By contrast, the overweights to Hungary and Brazil detracted. Stock selection in Turkey also detracted slightly, largely attributable to the off-benchmark holding in **Sok Marketler**.

Among our non-core markets, China (Off-benchmark **Midea Group**) contributed positively. Conversely, Kazakhstan (Off-benchmark **Halyk Savings Bank**) was negative.

Looking ahead

The probability of a Biden victory in the US presidential election has increased, with the prospect of the Democrats winning control of the Senate also coming into focus. Such an outcome would likely enable greater fiscal stimulus, be supportive of US economic growth, potentially lead to dollar weakness and an increase in the US 10-year government bond yield. It may also be negative for US markets given the prospect for tax increases, notably corporate income tax, and tighter regulation in certain sectors. This would likely be beneficial for EM. Whatever the outcome of US elections, we expect that US-China tensions will persist, though the approach would potentially become more measured under Biden. In the longer term, there are concerns in certain EM countries over either surging public debt or economic scarring, though in certain cases this has been priced into equity and currency valuations.

Risk considerations

The capital is not guaranteed.

In order to access restricted markets, the fund may invest in structured products. Should the counterparty default, the value of these structured products may be nil.

A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities.

Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund.

Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class.

Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa.

Where the fund (or the manager) holds a significant percentage of the shares of one or more companies, it may be difficult to sell those shares quickly. It may affect the value of the fund and, in extreme market conditions, its ability to meet redemption requests upon demand.

The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets.

Emerging markets will generally be subject to greater political, legal, counterparty and operational risk

Emerging equity markets may be more volatile than equity markets of well established economies. Investments into foreign currencies entail exchange risks.

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