

Schroder Asian Growth Fund

Monthly Fund Update

In summary

Equity markets were hit by the sovereign debt crisis in Europe, a slowdown in Chinese growth and increased concerns of a “double-dip” in global economic activity. China’s recent move to raise the centre point of the RMB’s official trading band in June had little positive effect on Chinese equities, which underperformed the region over the month on concerns over property tightening and a growth slowdown. Across sectors in the region, the Consumer Staples and the Telecommunications sector performed the best whilst the IT and the Materials sectors were the weakest over the month.

The market and the drivers of fund performance

The Fund continued to outperform the benchmark over the month. Outperformance was mainly attributable to stock picks in **Hong Kong** and **China**, as well as the portfolio’s overweight allocation in **Hong Kong**. However, negative stock selection in **Korea** mitigated performance gains slightly.

In Hong Kong, **Hong Kong Aircraft Engineering** was a significant contributor to performance. Positive contributions also came from the likes of Industrial stock **Jardine Strategic**, which rose on the strong growth from its underlying subsidiaries and large discount to NAV. Financial counter **Hang Lung Group**, which strengthened on expectations of a relaxation in policy towards the PRC property sector in 2H10, also lifted portfolio performance.

Elsewhere in China, Consumer Staples stock **China Mengniu Dairy** added value on the company’s continued dominance in the market, as well as on expectations that the company’s change in product mix would drive margin expansion and offset raw milk price pressures. We were rewarded for our overweight in Industrial name **Lonking Holdings** as well.

Conversely, key detractors in Korea include Financial name **Korea Exchange Bank** and Materials stock **LG Chemical**. Korea Exchange Bank fell on the slow progress and muted interest surrounding the sale of the company whilst our nil holding in LG Chemical weighed on performance, as the stock climbed on expectations of healthy IT and chemicals demand.

The market outlook and portfolio strategy

We expect markets will continue to be choppy, but subdued through Q3 as we move into a ‘flattening-out’ stage of the recovery. We expect as well that the policy unwinding will gather momentum in parts of Europe and the US as well as in Asia impacting market sentiment. Some countries such as China, for example, are ahead of the curve relative to the rest of the region in this regard, and may see a more muted tone going forward with respect to policy tightening in these markets.

Earnings expectations remain high across the region and are likely to disappoint as margins for many companies could be under pressure into 2H. Analysts’ earnings downgrades in the coming months could create better buying opportunities and, looking closer, we will aim to buy into some names that we were selling down earlier in the year. While not being all out aggressive, we are shifting the portfolios for a pick up in the markets as we move into Q4. We believe stock selection will be key in providing strong performance and, in particular, we expect investors within the region to be most focused on strong fundamentals.

This report includes some views on the specific underlying securities of the fund, but the views are not necessarily indicative of the future or likely performance of the underlying securities of the fund.

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