

# Schroder ISF\* BRIC

## Monthly Fund Update

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### In summary

The MSCI BRIC index was in negative territory in April, although the fund posted a positive return. Looking forward, although we expect market conditions to remain volatile in the near term, emerging markets continue to enjoy considerable advantages compared to the developed world. These countries are generally in stronger financial shape than developed markets with, for example, lower debt levels. They also have much better economic growth prospects and we are expecting to see strong company profits growth in these markets over the next 12 months. Overall, the key reason for investing in the BRIC markets remains their excellent long-term growth potential, with these countries at a relatively early stage in their development.

### The market and the drivers of fund performance

The MSCI World index delivered a broadly flat return over the month. The improvement in investor sentiment seen in the previous month continued into the early weeks of April. However, markets gave back some ground in the latter part of the month as concerns over fiscal difficulties in the eurozone resurfaced, with rating agency Standard & Poor's downgrading the sovereign credit ratings of Greece, Portugal and Spain. The MSCI BRIC index underperformed developed and broader emerging markets against this background.

Brazil was the weakest performing BRIC market over the month. The underperformance of commodity-related stocks weighed on the market, while the Brazilian central bank raised interest rates by 75 basis points, which was above consensus expectations. The energy-dominated Russian market underperformed, despite an increase in oil prices over the month. The MSCI China index lagged the MSCI BRIC index, with concerns over measures to curb property market growth and the potential for imminent increases in interest rates having a negative impact. The Indian market outpaced the MSCI BRIC index, with local currency appreciation having a positive impact on US dollar returns. The market outperformed despite the country's central bank raising interest rates by 25 basis points in a bid to combat inflationary pressures. Data was also released showing the country's economy continuing to grow strongly, with industrial production increasing by 15.1% year-on-year in February.

Stock selection had a positive impact on fund performance in April, while country allocation had a negative impact. Stock selection in China added most value. Our underweight in India had a negative impact (we are underweight due to concerns over inflation and interest rates while valuations are relatively expensive).

### The market outlook and portfolio strategy

We remain overweight Russia. Valuations are at attractive levels in this market, while economic fundamentals are improving and liquidity conditions are supportive. We remain neutral China. Valuations are at reasonable levels although earnings growth is relatively unattractive and we have concerns over inflation/policy tightening. We remain neutral Brazil. Valuations are reasonable although we have concerns over inflation/interest rates and political uncertainties. We remain underweight India. Although domestic growth is strong, we have concerns over inflation/interest rates while valuations are relatively expensive.

**Risk warnings:** Investments in emerging markets are subject to market risk and, potentially, liquidity and currency exchange rate risk. Investments in equities are subject to market risk and, potentially, to currency exchange rate risk. This fund may use financial derivative instruments as a part of the investment process. This may increase the fund's price volatility by amplifying market events.

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