

Schroder ISF* Global Emerging Market Opportunities

Monthly Fund Update

Market Review

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 Emerging Markets index delivered a positive return despite the weakening of risk appetite in the latter part of the month, outperforming the MSCI World index.

Our core markets in April were Korea, Russia, Turkey, Thailand, Indonesia and Egypt. Egypt was the best performing emerging market over the period, boosted by very strong returns from local index heavyweight Orascom Telecom. The Turkish and Indonesian markets also delivered strong absolute returns, as they continued to rebound from weakness earlier in the year. In Turkey, data was released showing industrial production growing by 18.1% year-on-year in February, which was ahead of consensus expectations, while in Indonesia, export data for February showed year-on-year growth of 57.1%. The Korean market also made strong progress with Samsung Electronics, the largest stock in the local index, performing well. Data was released showing Korean GDP growing by 7.8% year-on-year in Q1. Thailand delivered a negative return, with the market impacted by an escalation of domestic political unrest. The energy-dominated Russian market was also in negative territory, despite an increase in oil prices over the month, while the country's central bank cut interest rates by 25 basis points.

Performance comment

The fund delivered a positive absolute return in April. Among our core markets, our exposure to Turkey (among our core markets due to attractive valuations and an improving growth outlook), Korea (attractive valuations, strong earnings, beneficiary of global recovery) and Indonesia (strong return on equity, structural improvements) had a positive impact. Our exposure to Thailand (improved growth outlook, attractive valuations) had a negative impact. In the non-core segment of the portfolio, our exposure to China and Taiwan had a negative impact (we have exposure here as we have identified several attractive stock-specific opportunities in these markets).

The market outlook and portfolio strategy

We have been somewhat cautious on the short-term outlook for emerging markets since January, and we continue to hold this view. This is because US data is pointing to stronger-than-expected growth in the near term and consequently the US dollar is strengthening which, together with a modest tightening of monetary policy which is underway in some emerging economies and ongoing uncertainties over the fiscal difficulties within the eurozone, creates the potential for continued near-term market volatility. As a result, we are retaining substantial exposure to cash in the portfolio to guard against this (although following the end of the month we reduced the size of our cash position).

However, whilst we remain somewhat cautious in the short term, we continue to be positive on the medium to longer-term outlook for the emerging markets, given their superior economic fundamentals and stronger growth prospects compared to the developed world.

Our core markets remain Korea (attractive valuations, strong earnings, beneficiary of global recovery), Russia (improving economic fundamentals, attractive valuations, supportive liquidity

conditions), Turkey (attractive valuations, improving growth outlook), Thailand (improved growth outlook, attractive valuations), Indonesia (strong return on equity, structural improvements) and Egypt (attractive valuations).

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