

# Schroder Asian Growth Fund

## Monthly Fund Update

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### In summary

Asian equities were higher over April, despite fears about monetary tightening in the region, particularly in China. The Fund delivered a positive return, outperforming its benchmark over the month. We believe that market conditions are likely to remain volatile in the near term given that the global economy is far from out of the woods. However, we remain confident that Asia stands in good stead to deal with the headwinds as regional banks are well capitalised, and government, company and consumer balance sheets are strong. Against that, we remain positive on domestic-focused companies, which should be better positioned to cope with the uncertainties in the market and still benefit from the region's strong domestic demand story. In fact, the current market volatility should create some good entry points for long-term investors looking to take advantage of these favourable trends.

### The market and the drivers of fund performance

The Fund posted a positive return in April and outperformed its benchmark. Relative outperformance was primarily attributable to positive stock selection in **Hong Kong**, although negative stock selection in **Korea** mitigated performance gains slightly. From a sectoral perspective, our picks within the **Industrial** sector added value, while negative stock selection in the **Consumer Staples** sector weighed on gains.

Within the Industrial sector, **Jardine Strategic** was a key contributor to performance, as the stock rose following a share buyback announcement by the company. The portfolio also benefited from its overweight in **China High Speed Transmission**, which climbed after the company released a set of stellar results, helped by strong gross margins and lower than expected costs. Our holding in **Sembcorp. Industries** also further added value, on the back of the company's proposed acquisition of Cascad N.V., which was viewed as a strategic move to accelerate the growth of its water business.

Conversely, negative contributions came from the likes of **China Mengniu Dairy** and **Shinsegae** within the Consumer Staples sector. Another key detractor for the portfolio included **Longfor Properties**, which fell on worries over further policy measures which could further dampen the Chinese property market; however, we are happy to hold onto the stock given its strong franchise and attractive long-term growth story.

### The market outlook and portfolio strategy

While we remain sanguine about the region's long-term investment potential, we are more cautious in the near term as key questions about the sustainability of the market recovery have yet to be addressed. The global economy still faces severe de-leveraging headwinds and, closer to home, we are concerned about the tightening cycle within the region. We are acutely aware of these uncertainties ahead and, as a result, are committed to looking for opportunities within what we expect to be increasingly volatile Asian markets.

In the light of these concerns, we are unlikely to see a repeat of last year's extraordinary gains in markets as a whole, this year. However, there are still opportunities at the stock level as large parts of the market lagged the cyclical-led rally last year, despite offering attractive valuations and solid long-term business prospects. With markets starting to normalise, we think these stocks should benefit going forward. This includes domestic-related names such as infrastructure and yield focused companies, which we continue to favour for their exposure to Asia's long-term positive secular trends, although we continue to remain cautious on resources overall.

**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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