



# The Outlook for Asian stocks

## AJ Bell Money Retirement Show

Abbas Barkhordar, Fund Manager

December 2024

# Team – Strength in depth

Experienced portfolio managers and analyst team based in London and Asia

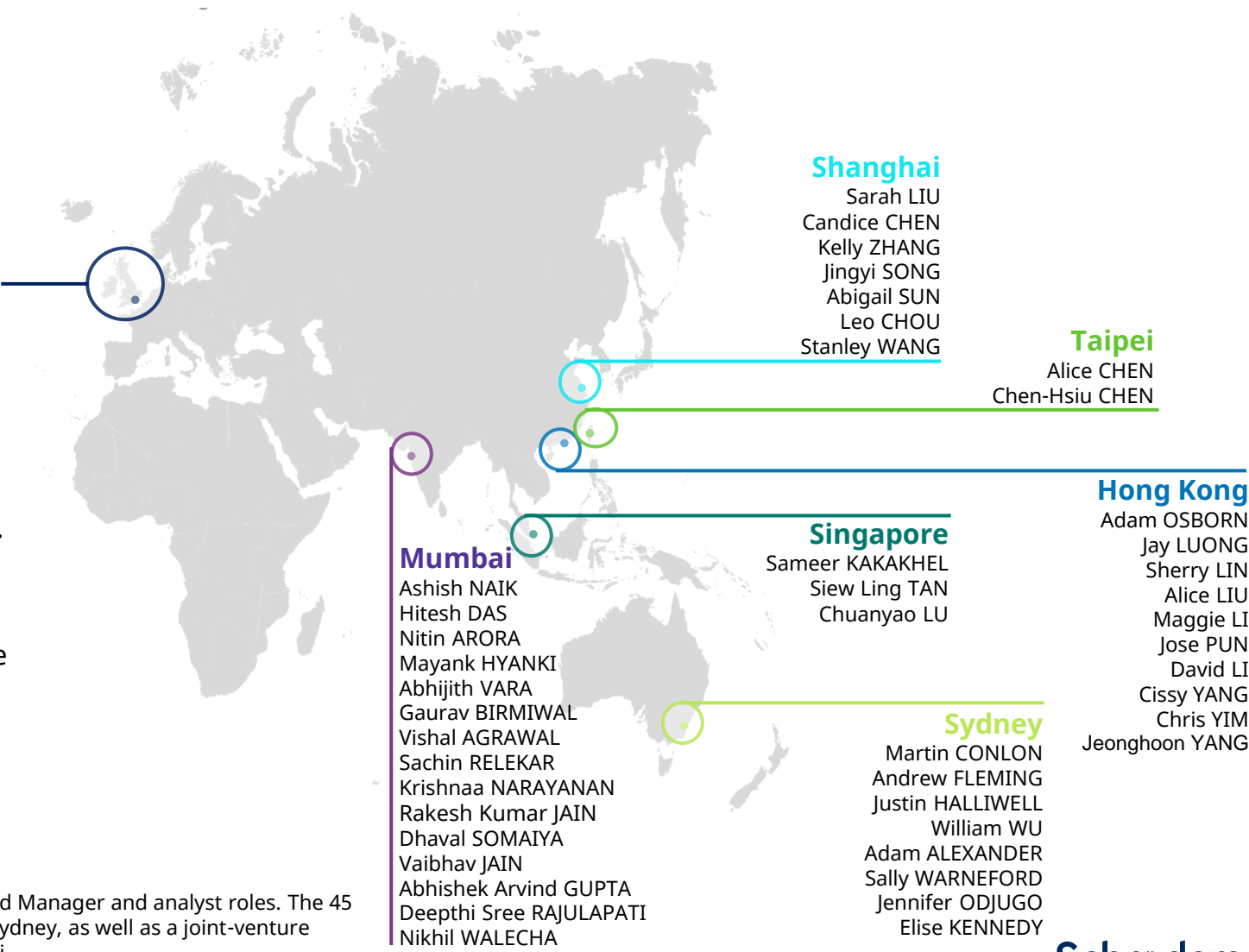
Schroders Asian team exceptionally well resourced

Fund Manager	Focus	Years of Experience	Years with Schroders
Richard SENNITT	Asian Equity Specialist	31	31
Abbas BARKHORDAR	Asian Equity Specialist	17	17
Robin PARBROOK	Alternatives, Value & Regional	34	34

- 16<sup>2</sup> ex Japan Fund Managers and Specialists based in Singapore, Hong Kong and London
- 45<sup>2</sup> ex Japan analysts based in six offices across the region. There is also a dedicated Sustainable Equity Analyst
- Investment Insights Unit – a team of data scientists from a variety of backgrounds and industries who work to provide investors with an information edge
- London based Emerging Market and Global teams
- Access to >40<sup>1</sup> sustainable investment team

Source: Schroders. Years experience as at 30 September 2024.

<sup>1</sup>October 2024. <sup>2</sup>September 2024. Some Fund Managers and analyst hold both Fund Manager and analyst roles. The 45 ex Japan analysts includes Schroders' local specialist team of 8 equity analysts in Sydney, as well as a joint-venture team of 15 Indian equity analysts at Axis Asset Management (Axis AMC) in Mumbai.

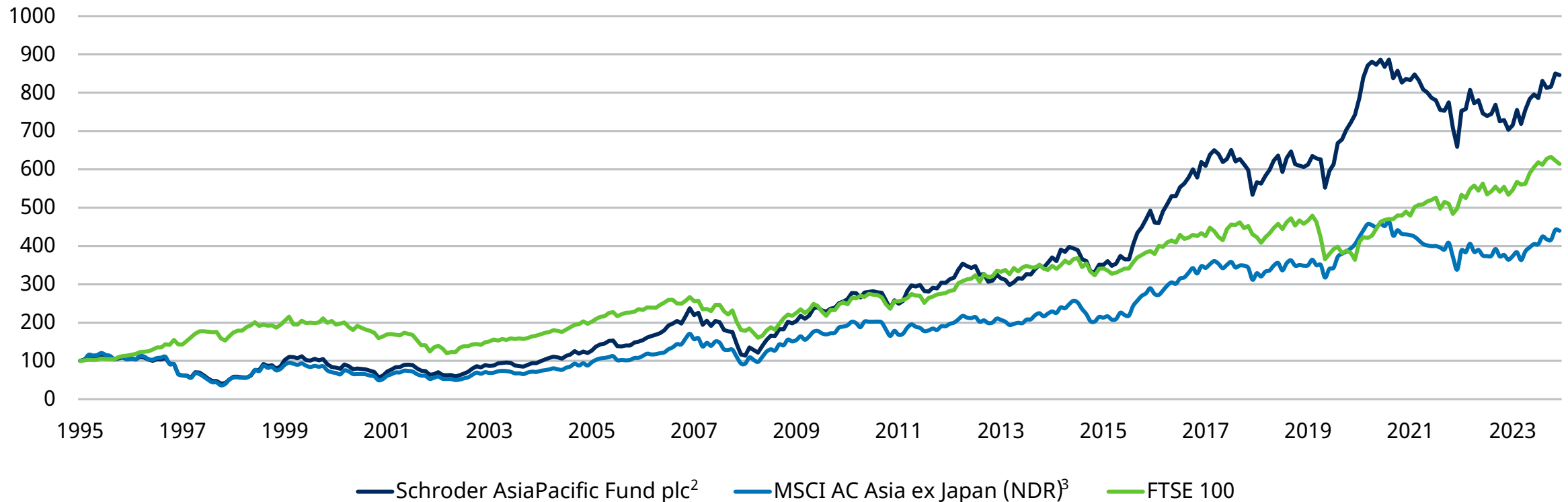


# Schroder AsiaPacific Fund plc

## Performance – Since inception<sup>1</sup> to 31 October 2024

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 amounts originally invested. The return may increase or decrease as a result of currency fluctuations.

Index 100 = 20 November 1995



<sup>1</sup> 20 November 1995

<sup>2</sup> Total Return NAV, net of fees, GBP.

<sup>3</sup> Prior to 31/01/2011 Benchmark was MSCI AC Far East ex Japan

Source: Morningstar, Schroders. The regions and countries shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Schroder AsiaPacific Fund plc

## NAV Performance

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### Discrete yearly returns (£)

	Oct 14 - Oct 15	Oct 15 - Oct 16	Oct 16 - Oct 17	Oct 17 - Oct 18	Oct 18 - Oct 19	Oct 19 - Oct 20	Oct 20 - Oct 21	Oct 21 - Oct 22	Oct 22 - Oct 23	Oct 23 - Oct 24
<b>Schroder AsiaPacific Fund plc<sup>2</sup></b>	-0.9%	39.8%	25.7%	-12.7%	13.4%	21.6%	12.8%	-20.5%	6.7%	20.0%
<b>MSCI AC Asia ex Japan<sup>1</sup></b>	-3.6%	35.2%	19.9%	-10.2%	11.8%	15.9%	6.4%	-21.4%	7.7%	20.8%
<b>Relative performance</b>	<b>2.7%</b>	<b>4.6%</b>	<b>5.8%</b>	<b>-2.5%</b>	<b>1.6%</b>	<b>5.7%</b>	<b>6.4%</b>	<b>0.9%</b>	<b>-1.0%</b>	<b>-0.8%</b>

Source: Morningstar, Schroders. <sup>1</sup>Prior to 31 January 2011 Benchmark was MSCI AC Far East ex Japan. <sup>2</sup>Cum-income fair NAV Total Return (since inception Total Return NAV), net income reinvested, net of ongoing charges and portfolio costs, GBP. **Benchmark:** The Fund aims to achieve growth in excess of the MSCI All Countries Asia excluding Japan Index NR in sterling terms (Reference Benchmark Index) over the longer term. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the benchmark. The investment manager will invest in companies or sectors not included in the benchmark in order to take advantage of specific investment opportunities.

# Schroder AsiaPacific Fund plc

## Risk considerations

- Concentration risk: The Company may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the company, both up or down.
- Currency risk: If the Company's investments are denominated in currencies different to the currency of the Company's shares, the Company may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates.
- Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- Gearing risk: The Company may borrow money to make further investments, this is known as gearing. Gearing will increase returns if the value of the investments purchased increase by more than the cost of borrowing, or reduce returns if they fail to do so. In falling markets, the whole of the value in such investments could be lost, which would result in losses to the Company.
- Liquidity risk: The price of shares in the Company is determined by market supply and demand, and this may be different to the net asset value of the Company. In difficult market conditions, investors may not be able to find a buyer for their shares or may not get back the amount that they originally invested. Certain investments of the Company, in particular the unquoted investments, may be less liquid and more difficult to value. In difficult market conditions, the Company may not be able to sell an investment for full value or at all and this could affect performance of the Company.
- Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the Company.
- Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
- Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.
- China risk: If the fund invests in the China Interbank Bond Market via the Bond Connect or in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect or in shares listed on the STAR Board or the ChiNext, this may involve clearing and settlement, regulatory, operational and counterparty risks. If the fund invests in onshore renminbi-denominated securities, currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.
- Counterparty risk: The Company may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the Company may be lost in part or in whole.
- Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.
- Share price risk: The price of shares in the Company is determined by market supply and demand, and this may be different to the net asset value of the Company. This means the price may be volatile, meaning the price may go up and down to a greater extent in response to changes in demand.

Source: Schroders.

# Asia is a varied region

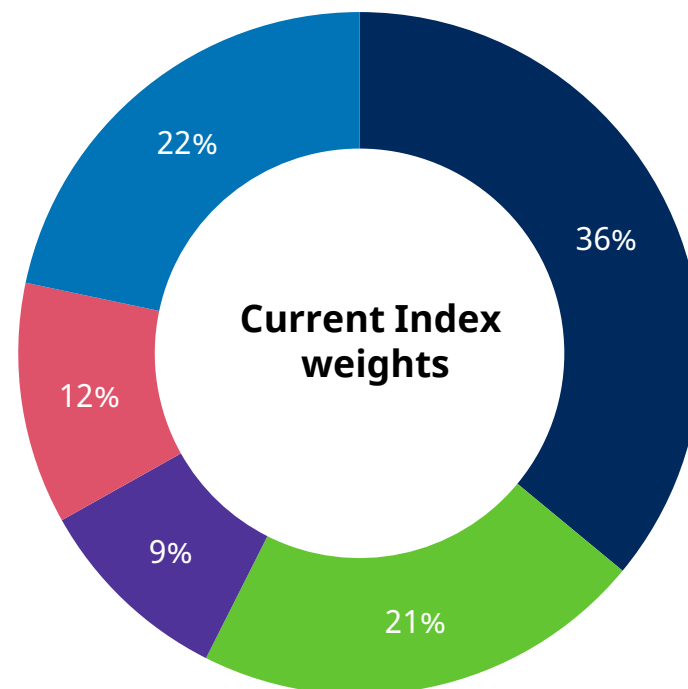
Drivers are diverse and complementary

■ HK/China ■ India ■ ASEAN ■ Korea ■ Taiwan

**Taiwan** - export heavy market, but with world class IT companies. Geopolitics risk.

**Korea** - also export heavy, potential to benefit from "value up" long-term.

**ASEAN** - opportunity set to expand (Vietnam etc), but stocks limited for now. Long-term beneficiary of supply chain shifts.



## Regional trends

- Aging demographics
- Supply chain re-orientation/bi-furcation
- Geopolitical tensions, investment restrictions?

**China (inc Hong Kong)** - structural challenges to persist (demographics, overinvestment, geopolitics) - more like Japan post 1992?

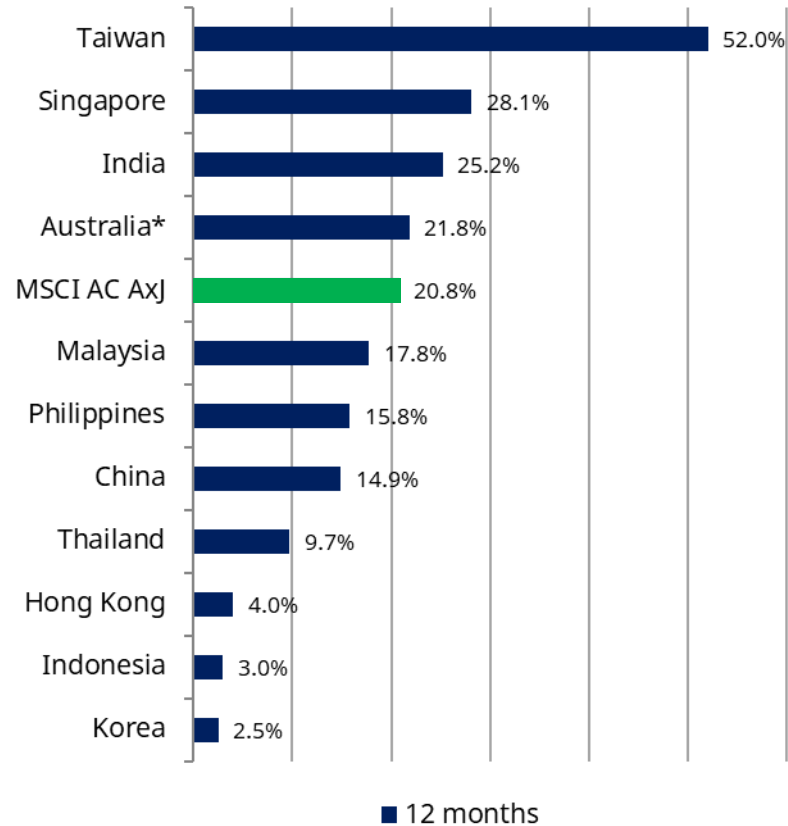
**India** - long term growth story intact - what's in the price? Geopolitical beneficiary?

Source: Schroders, MSCI. Information based on MSCI AC Asia ex Japan index as of 31 October 2024. The sectors, securities, regions and countries shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

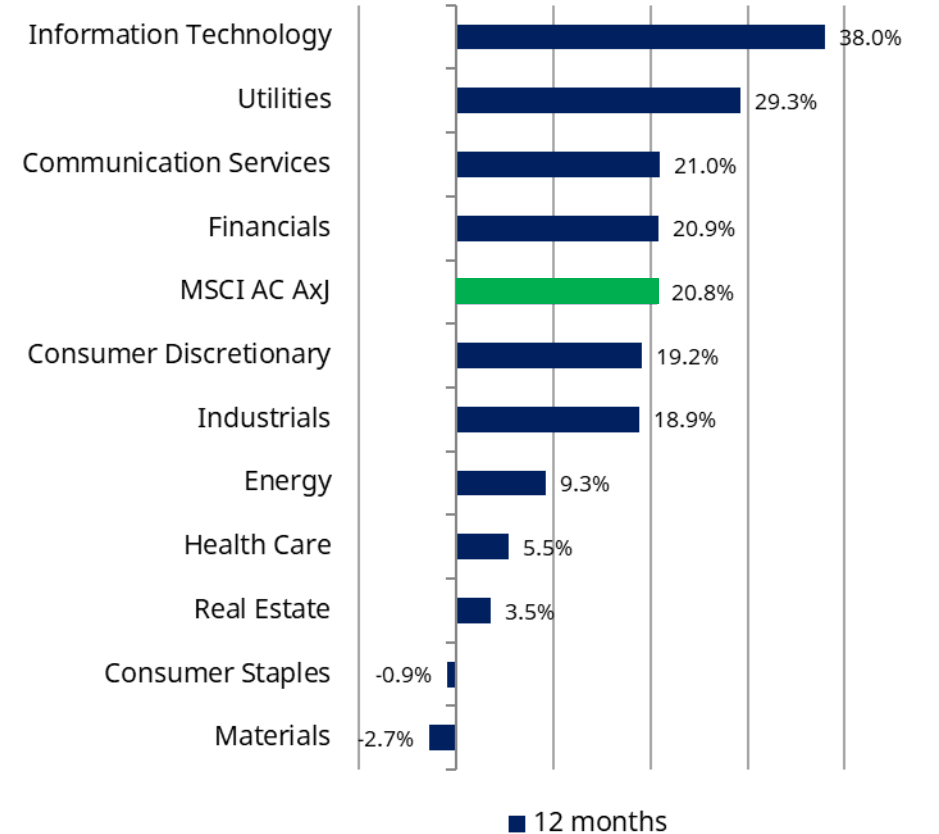
# Market returns

12 months to 31 October 2024

## Country returns in GBP



## Sector returns in GBP



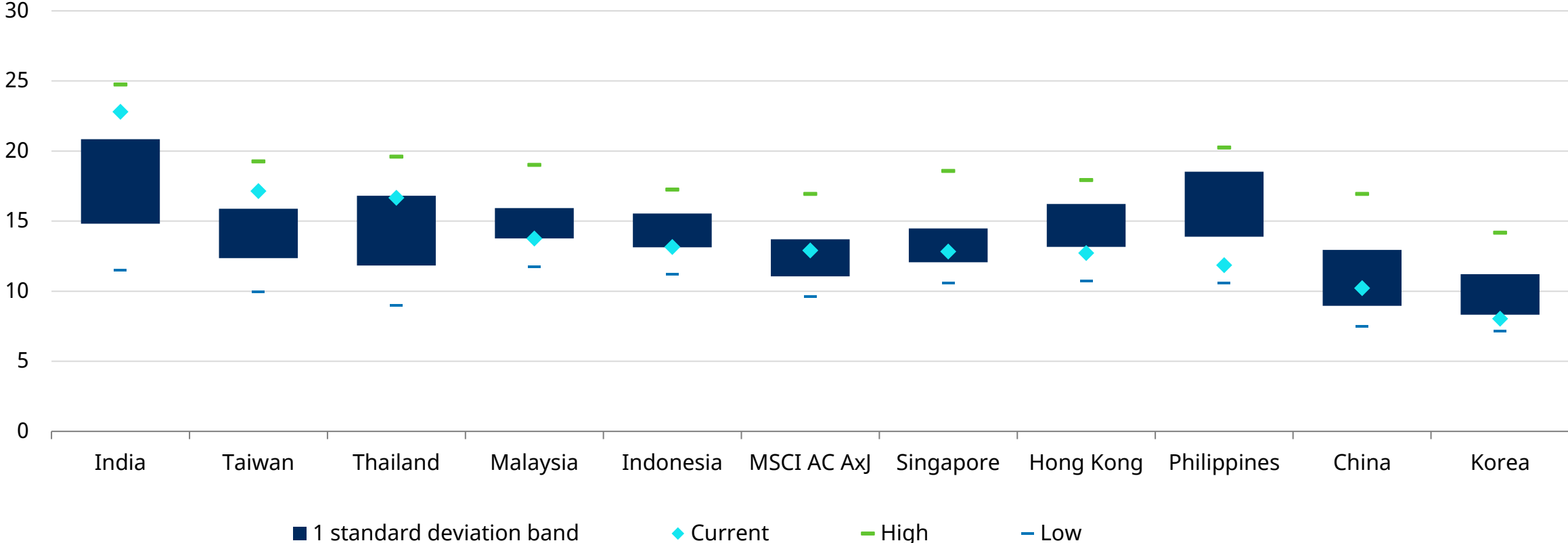
**Past Performance is not a guide to future performance and may not be repeated.**

Source: Schroders, FactSet, in GBP, net dividends reinvested, as at 31 October 2024. Based on MSCI AC Asia ex Japan. \*Australia is not part of the MSCI AC Asia ex Japan Index. Countries and sectors shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# Valuation picture mixed across countries

Broad spectrum of sentiment represented across the region

Price earnings ratio (P/E) Next 12 Months of MSCI AC Asia ex Japan markets since 2010



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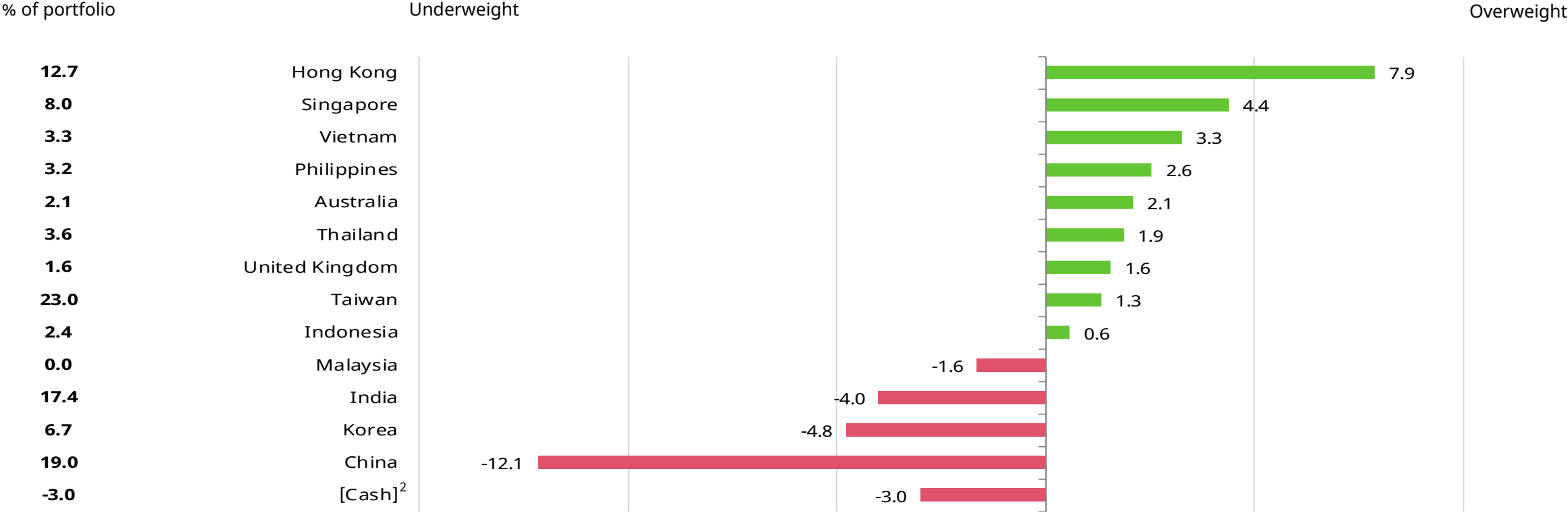
Source: Factset, MSCI, US%, 31 October 2024. Notes: PE data based on forecast data. The regions and countries shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell. Forecast risk warning: please refer to the important information slide at the end of this presentation.



# Schroder AsiaPacific Fund plc

Active country<sup>1</sup> positions as at 31 October 2024

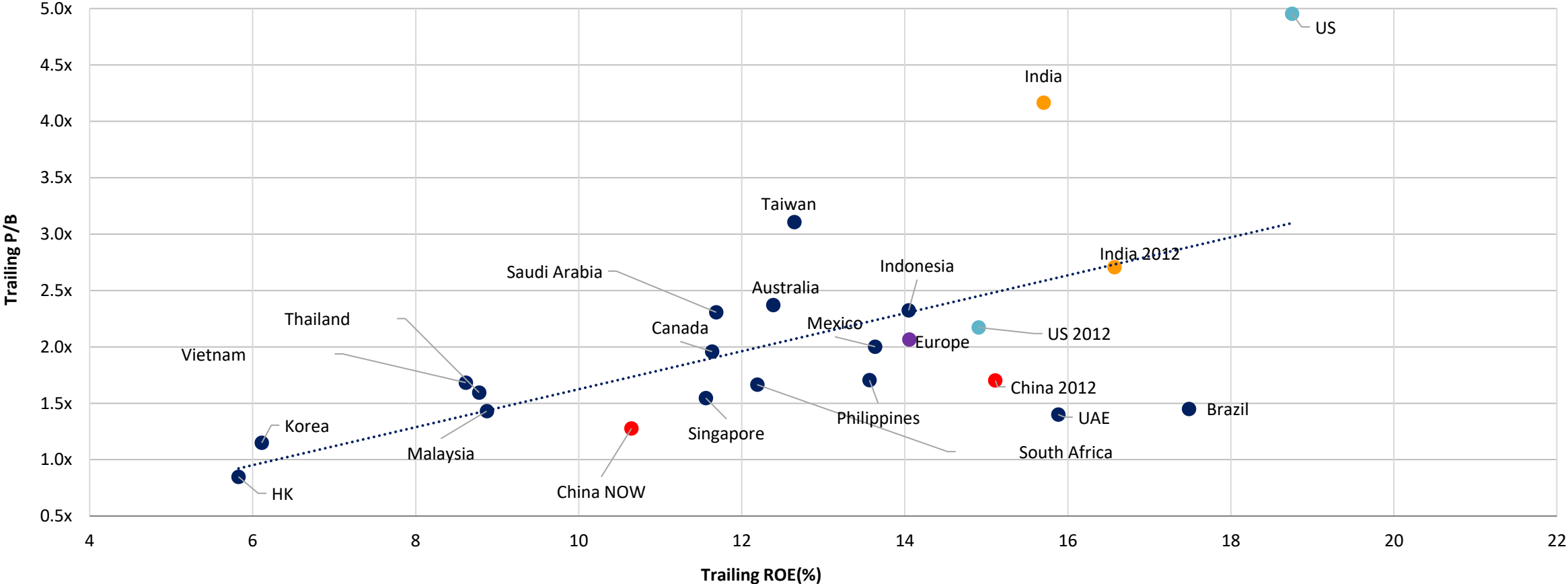
## Overweight/underweight positions



Source: Schroders, Factset, HSBC. <sup>1</sup>Fund position (based on underlying portfolio adjusted for loans outstanding) less benchmark weight (MSCI AC Asia ex Japan Index). <sup>2</sup>Net cash less loans outstanding. The accounting data used by FactSet is un-audited, therefore any subsequent cleaning of data will not be reflected in FactSet. The sectors, securities, regions and countries shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

# China de-rating in-line with ROE fall, India more like the US than Asia

P/B vs. ROE for global equities – China ROE has been heading in the wrong direction; for the US and India the debate is on valuation



**Past Performance is not a guide to future performance and may not be repeated.**

Source: FactSet, MSCI, RIMES, Morgan Stanley Research. Data as of July 2024. Numbers are based on MSCI indices for each economy. PB = Price to Book Value ratio, ROE = Return on Equity. The regions and countries shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell. Forecast risk warning: please refer to the important information slide at the end of this presentation.

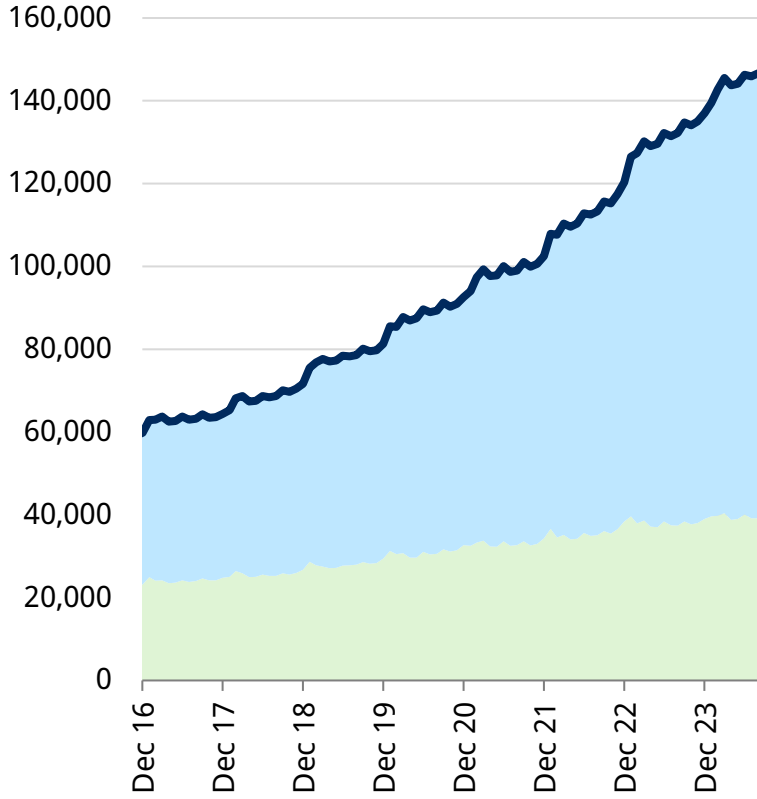
# China – weak property market and poor confidence impacting consumer

Stabilisation of property market needed for improvement in sentiment

## China consumer confidence low<sup>1</sup>

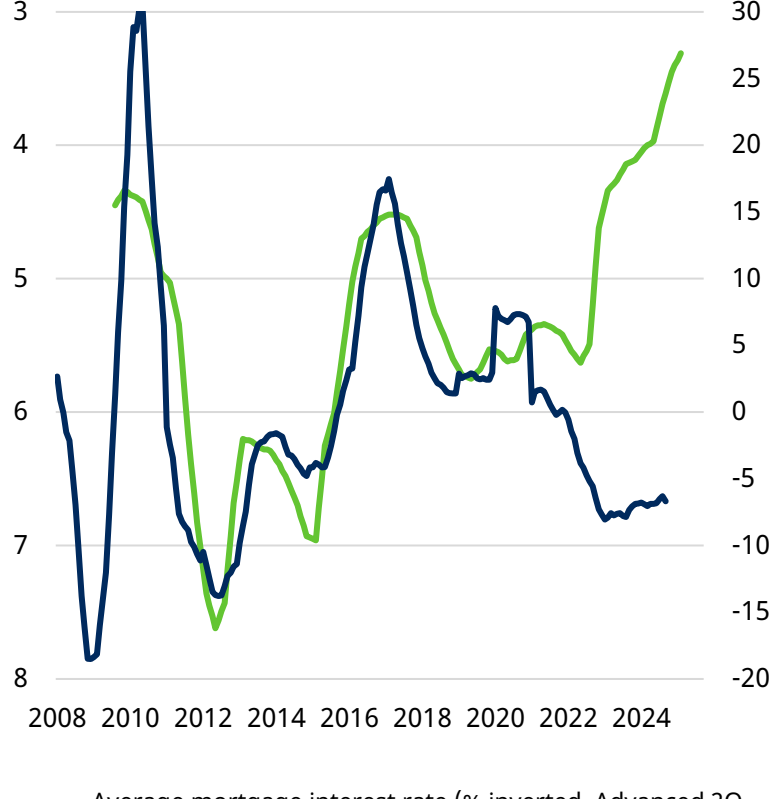


## Resulting in more saving<sup>2</sup>



Time deposits, other On demand deposits Household deposits

## Pushing on a string<sup>3</sup>



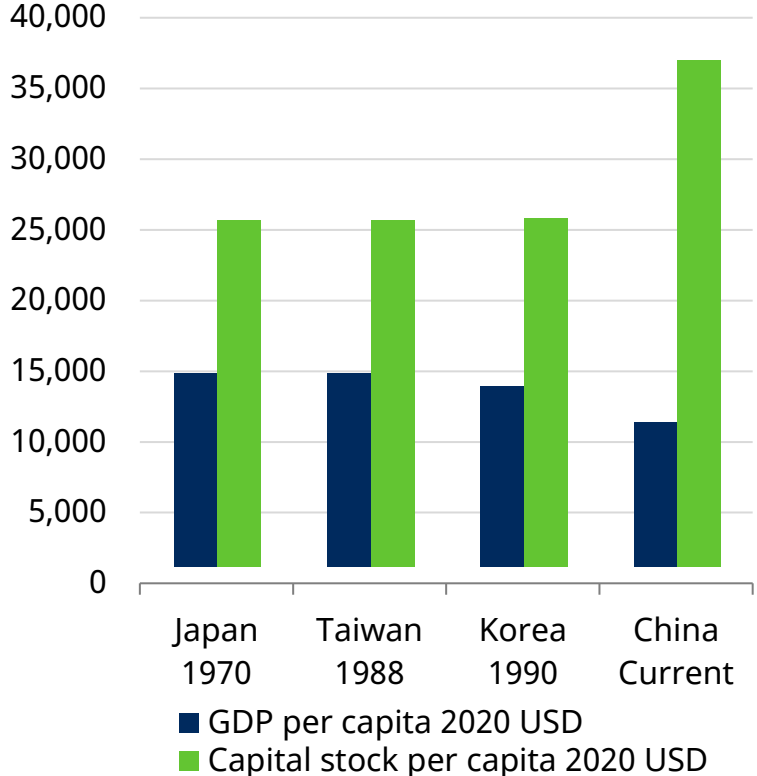
Average mortgage interest rate (% inverted, Advanced 2Q, LHS)

Source: <sup>1</sup>Refinitiv Datastream, as at November 2024. <sup>2</sup>Bloomberg, as at September 2024. <sup>3</sup>Refinitiv, Schroders Economics Group, 12 November 2024. The regions, countries and sectors shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

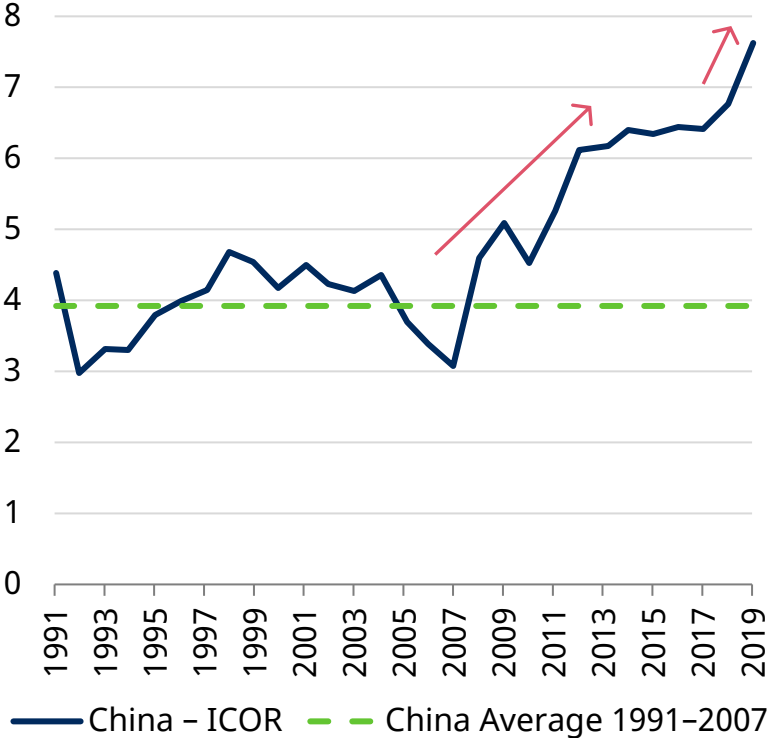
# China – why have returns been so disappointing – big picture

Turning Japanese? Will more fixed asset investment via stimulus packages just add to high debt levels and reduce capital efficiency?

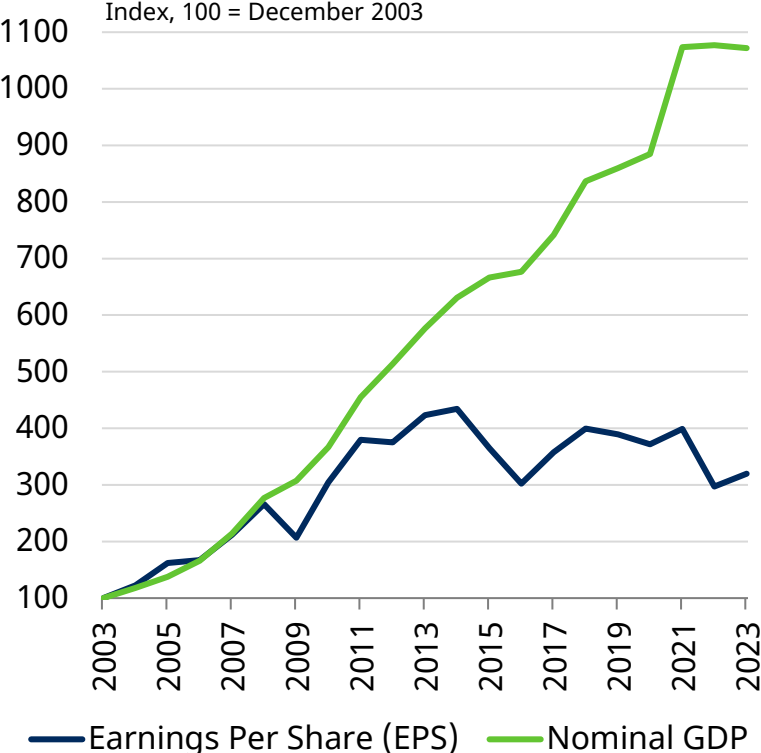
**GDP (Gross Domestic Product) and Capital Stock Per Capita<sup>1</sup>**



**China Incremental Capital Output Ratio (ICOR)<sup>2</sup>**



**Chinese economic growth hasn't translated into EPS growth<sup>3</sup>**



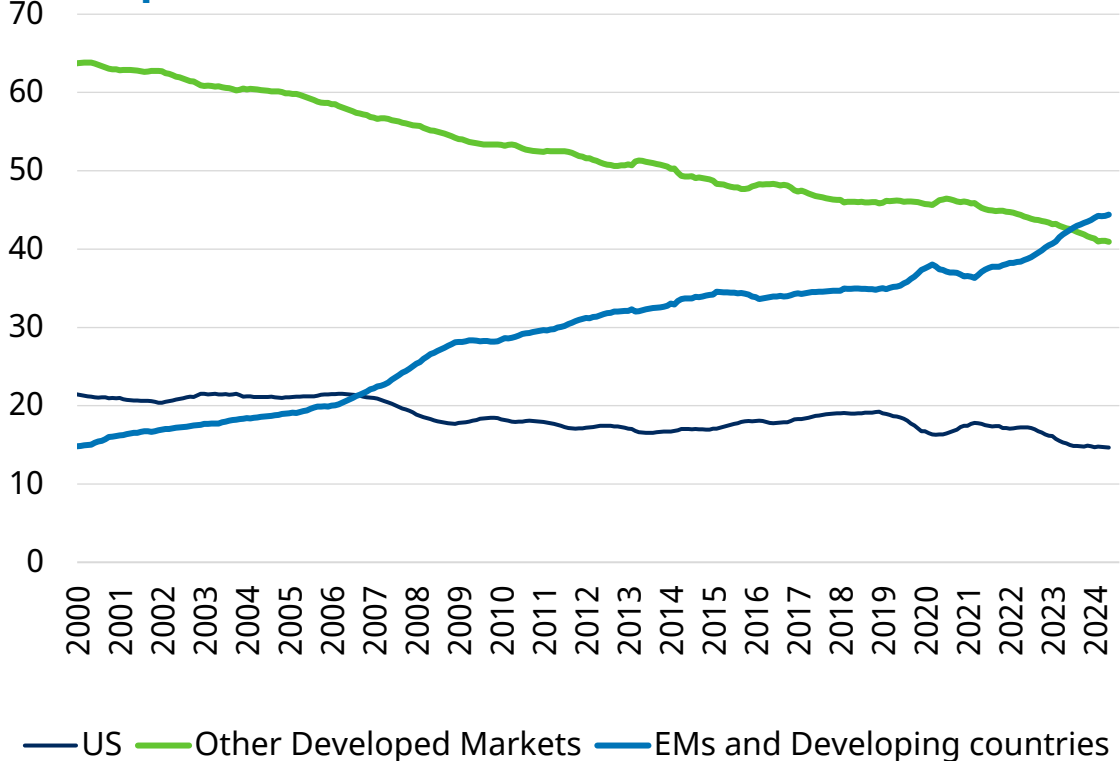
**Past Performance is not a guide to future performance and may not be repeated.**

Source: <sup>1</sup>DSG Asia, June 2022. <sup>2</sup>IMF, Macquarie, April 2022. <sup>3</sup>FactSet, World Bank, US\$, Minack Advisors, October 2024.  
For illustrative purposes only and does not constitute to any recommendations to buy or sell the above-mentioned security/sector/country.

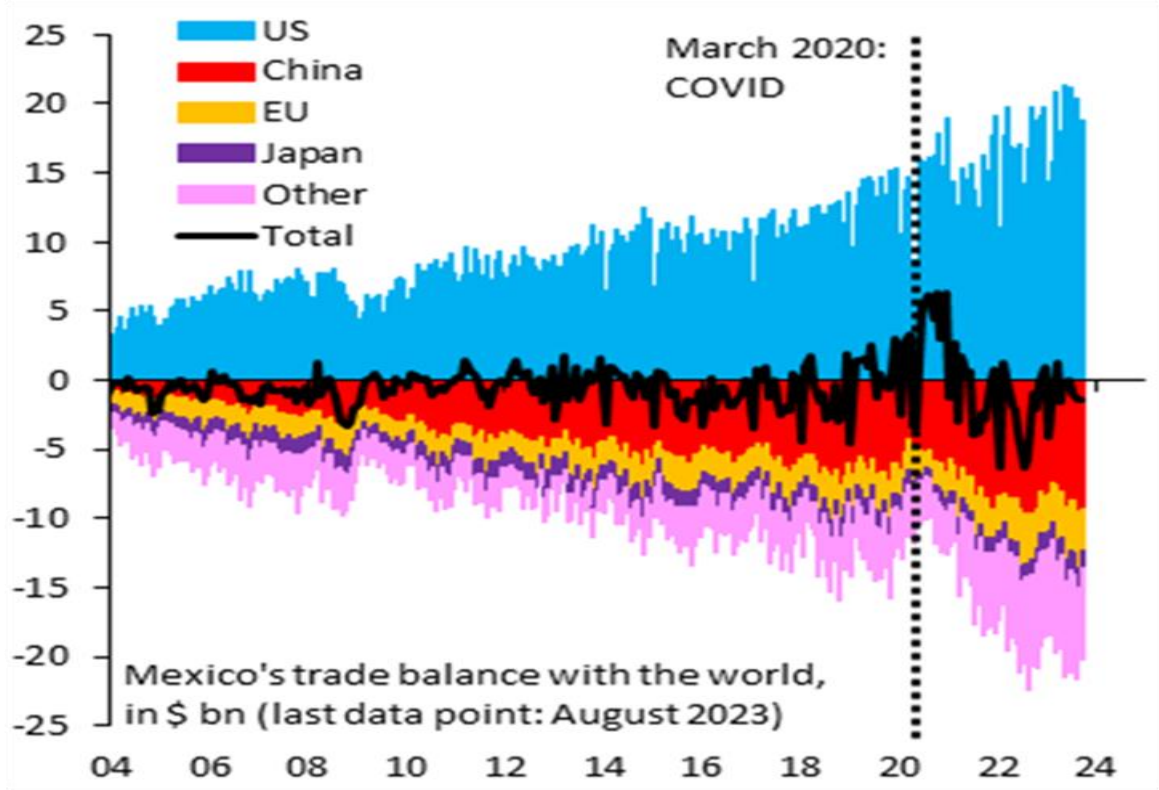
# China exports – deglobalisation in action?

China export reliance on developed markets apparently falling but in part a reorientation

China export destination – shift away from US & Developed Markets<sup>1</sup>



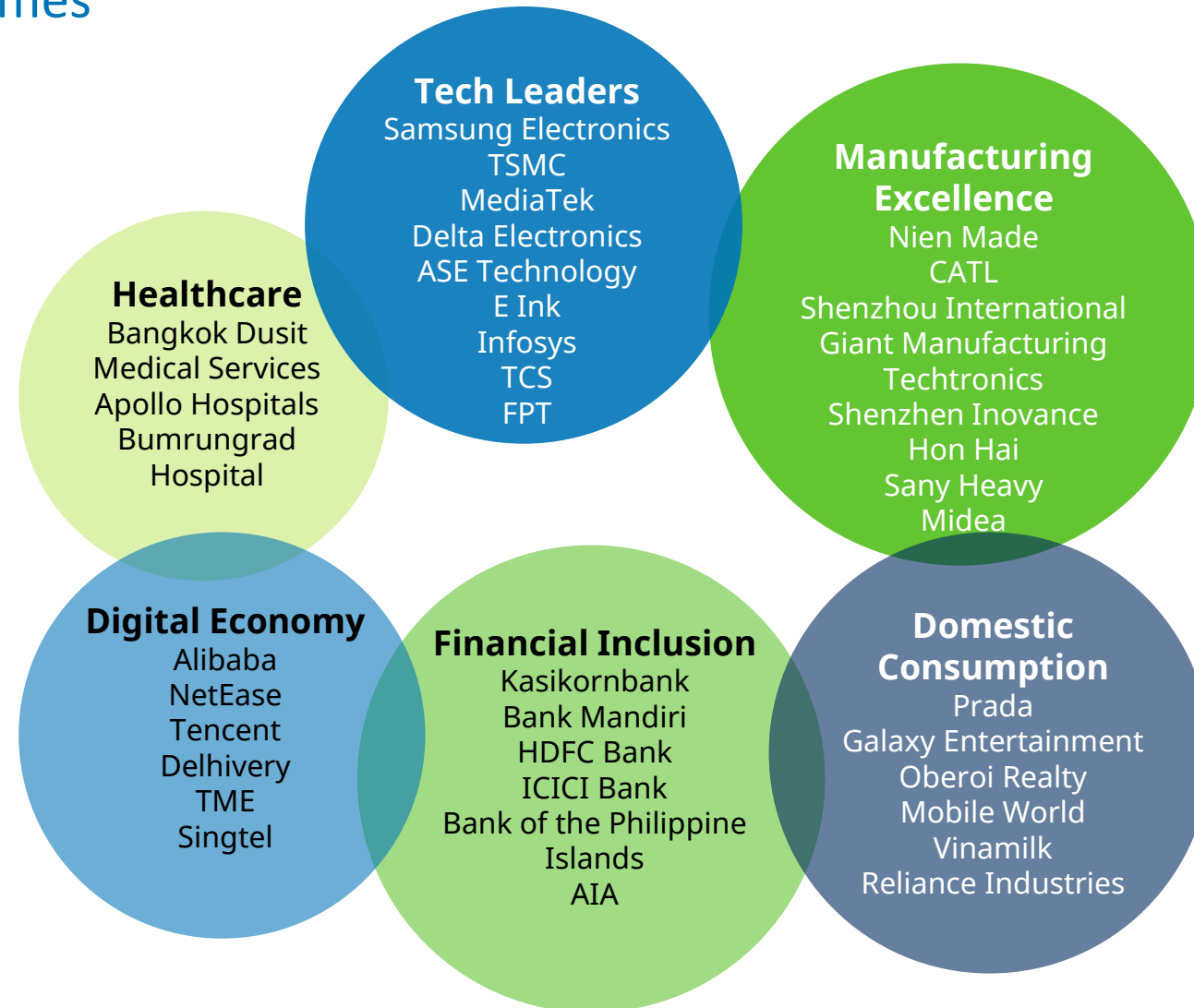
Mexico exports to the US surging but so are imports from China<sup>2</sup>



Source: <sup>1</sup>Refinitiv Datastream, Schroders, September 2024. <sup>2</sup>Macquarie, January 2024. The regions and countries shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell.

# What we like in the region

## Key investment themes

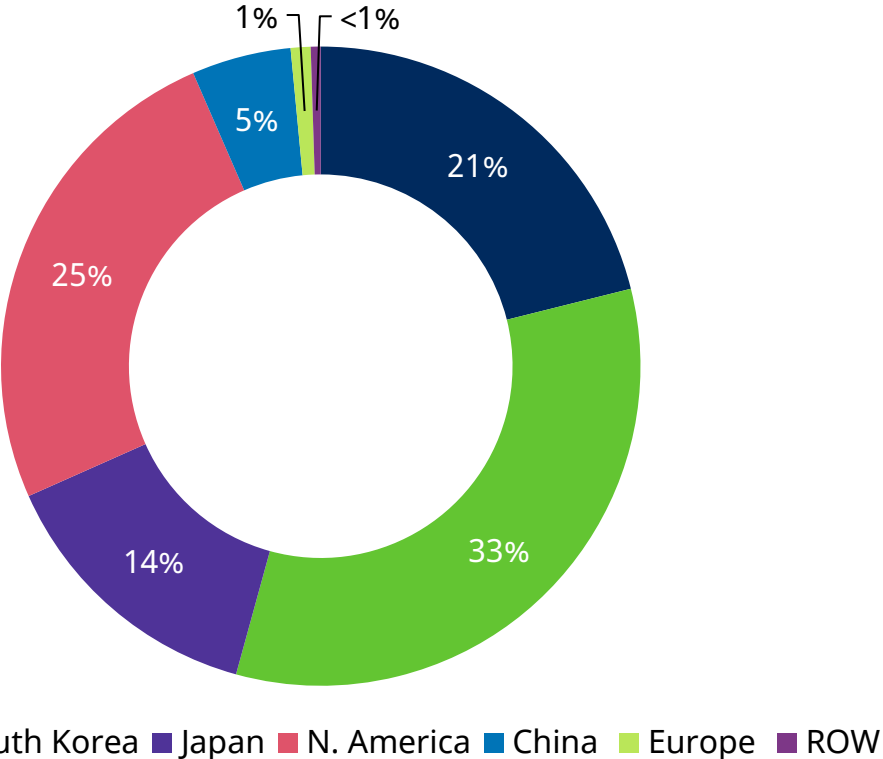


Source: Schroders, 31 October 2024. The stocks shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

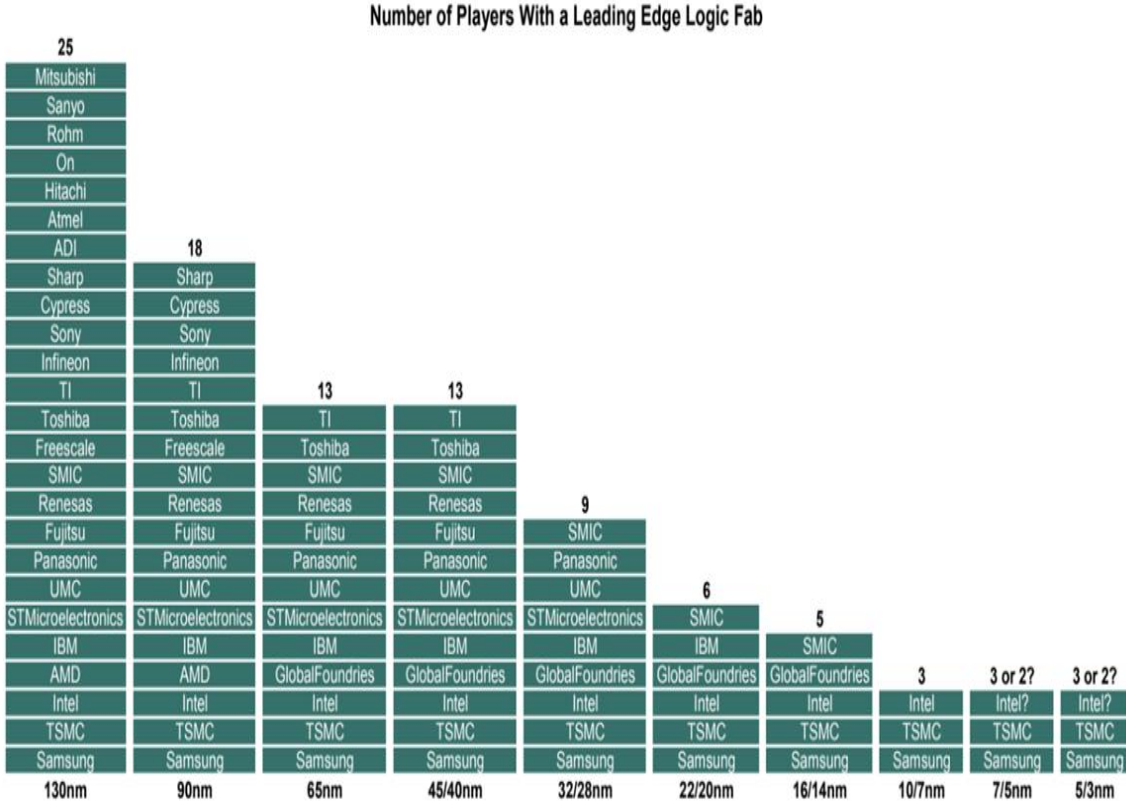
# Semiconductors still required

Long term demand trends around digitisation, cloud, AI, 5G to continue

Share of wafer worldwide capacity based on fab headquarters location<sup>1</sup>



Asian players world class<sup>2</sup>



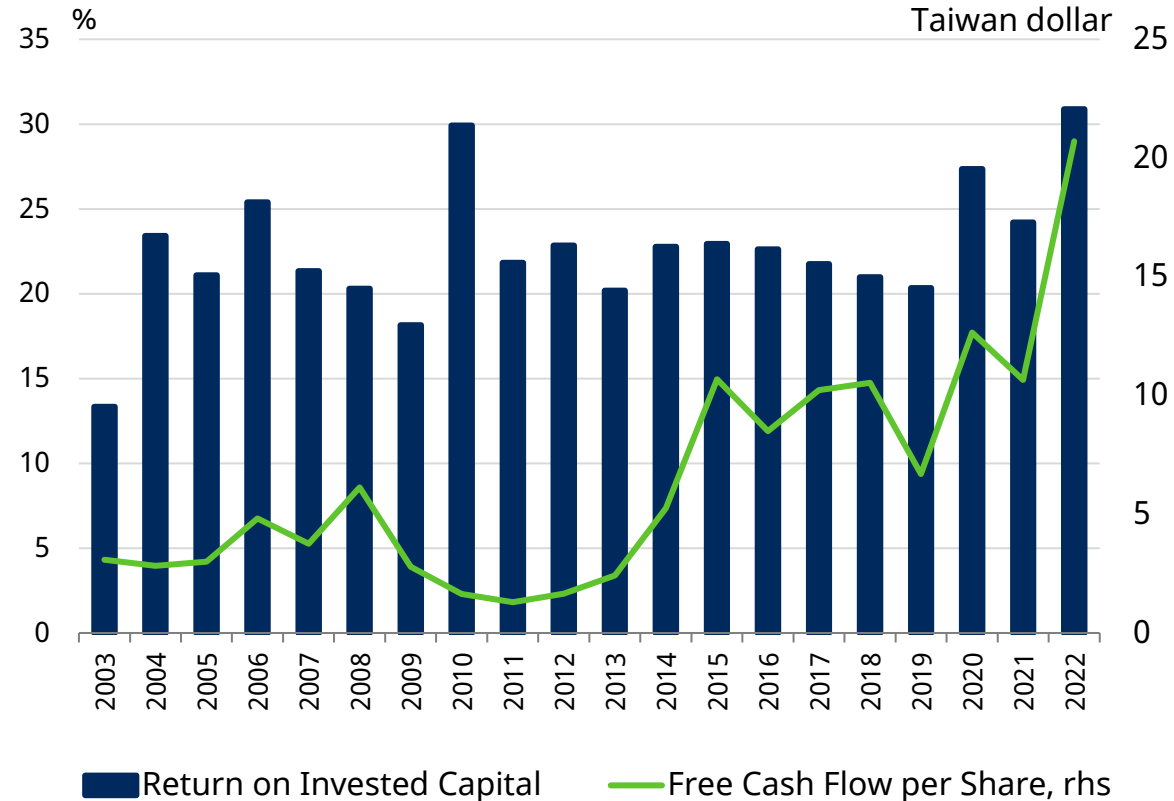
Source: Intel and Bernstein Research

Source: <sup>1</sup>IC Insights, as at 20 January 2021. <sup>2</sup>Intel and Bernstein Research. For illustrative purposes and should not be viewed as a recommendation to buy or sell.

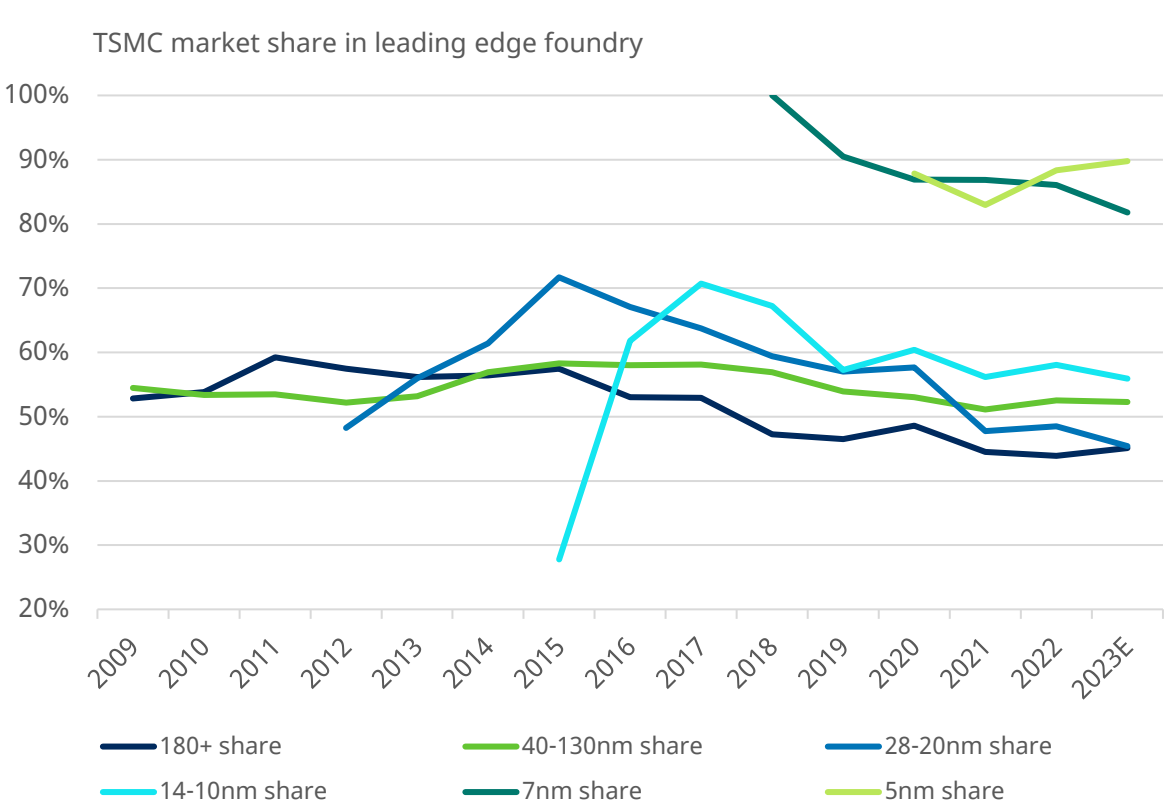
# TSMC

## Leading third party manufacturer of semiconductor chips

### Superior returns and cashflow generation...<sup>1</sup>



### ...has led to dominant high-end chip manufacturer<sup>2</sup>



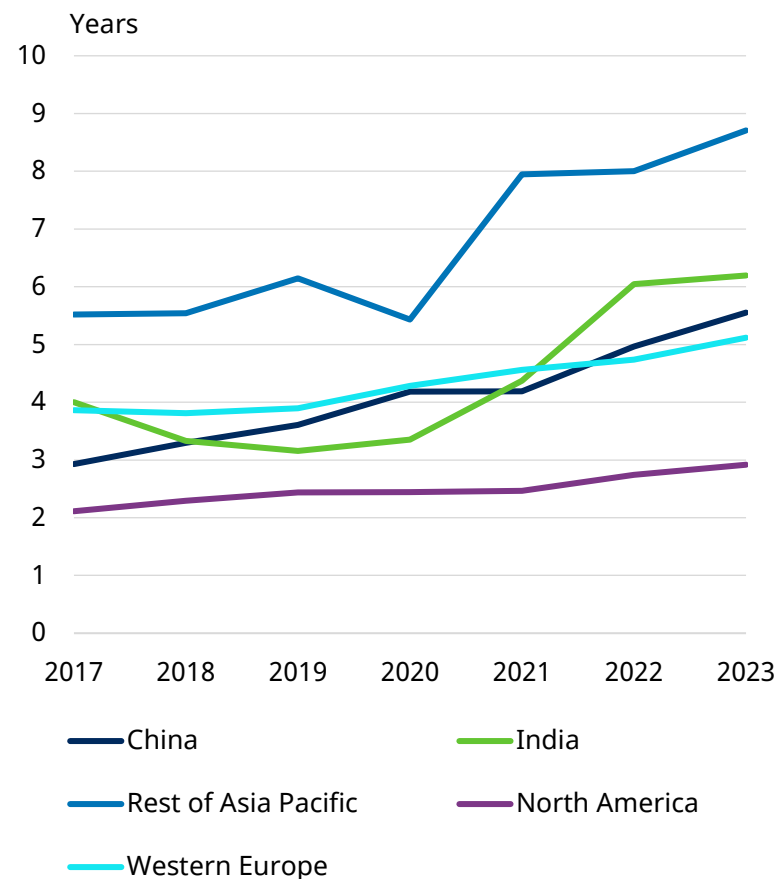
Source: <sup>1</sup>Factset, February 2023. Source: <sup>2</sup>Credit Suisse. The regions, sectors, securities and countries shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell. purposes and should not be viewed as a recommendation to buy or sell. <sup>3</sup>Source: Refinitiv Datastream, 31 May 2024. Forecast risk warning: please refer to the important information slide at the end of this presentation. Logos are the property of their respective entities.



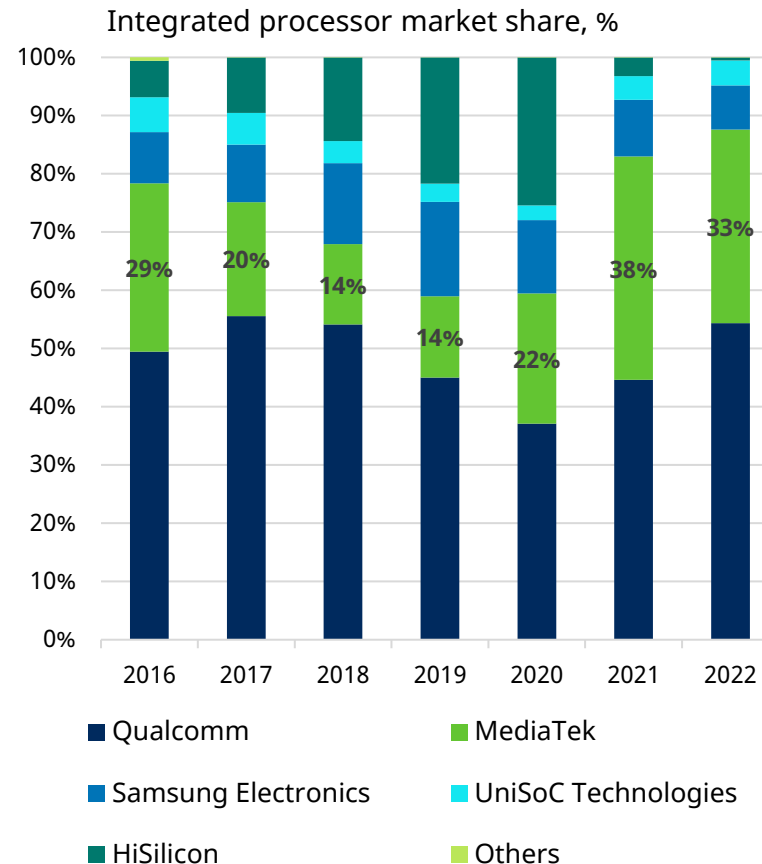
# Taiwanese IC design

MediaTek gaining market share and Smartphone replacement cycle getting closer?

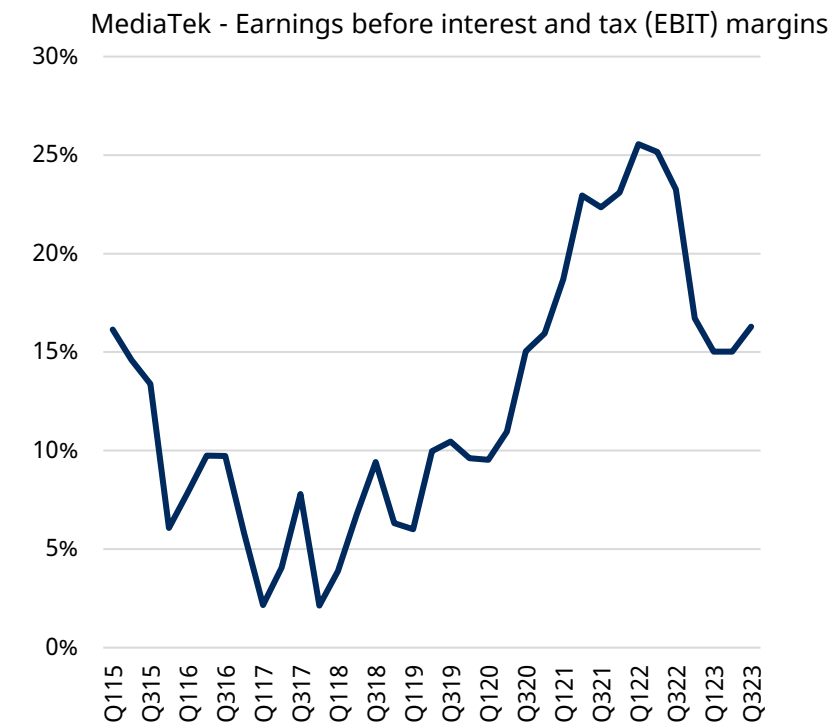
## Smartphones getting old<sup>1</sup>



## Taking market share<sup>2</sup>



## Reflected in better returns<sup>3</sup>



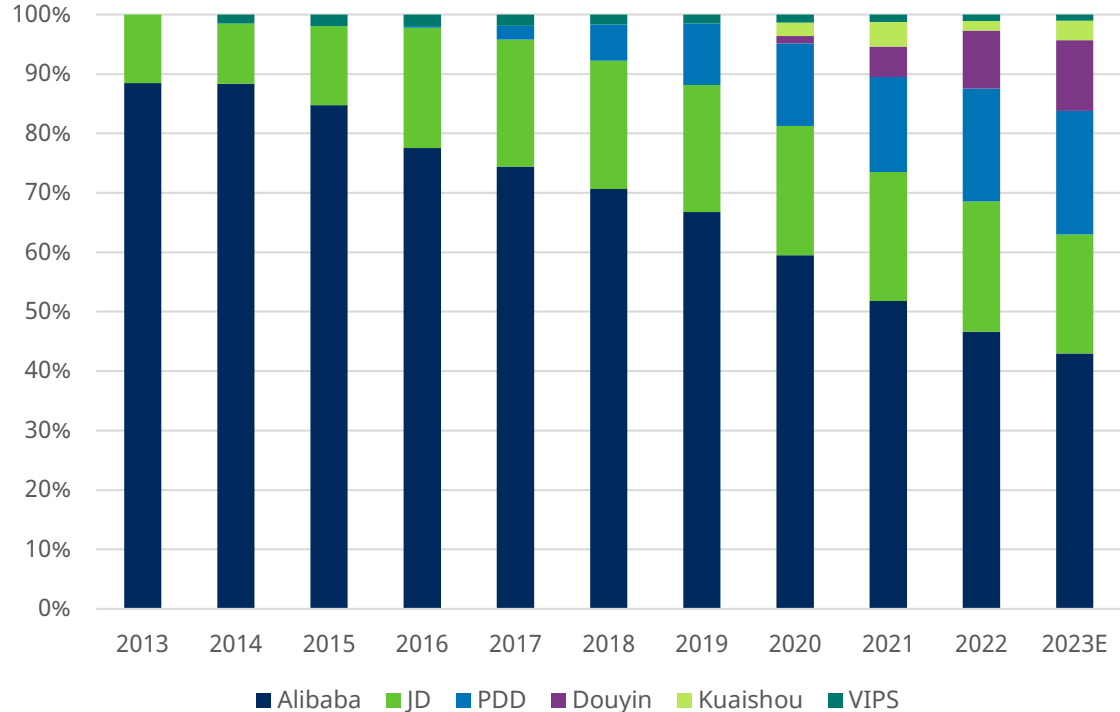
Source: <sup>1</sup>Schroders, JPMorgan, June 2024. <sup>2</sup>Gartner, June 2024. <sup>3</sup>Bloomberg, June 2024.  
For illustrative purposes only and does not constitute to any recommendations to buy or sell the above-mentioned security/sector/country.

# Industry structures we like in China - Gaming

Duopoly in China, gaining global market share, sensible capital return policy

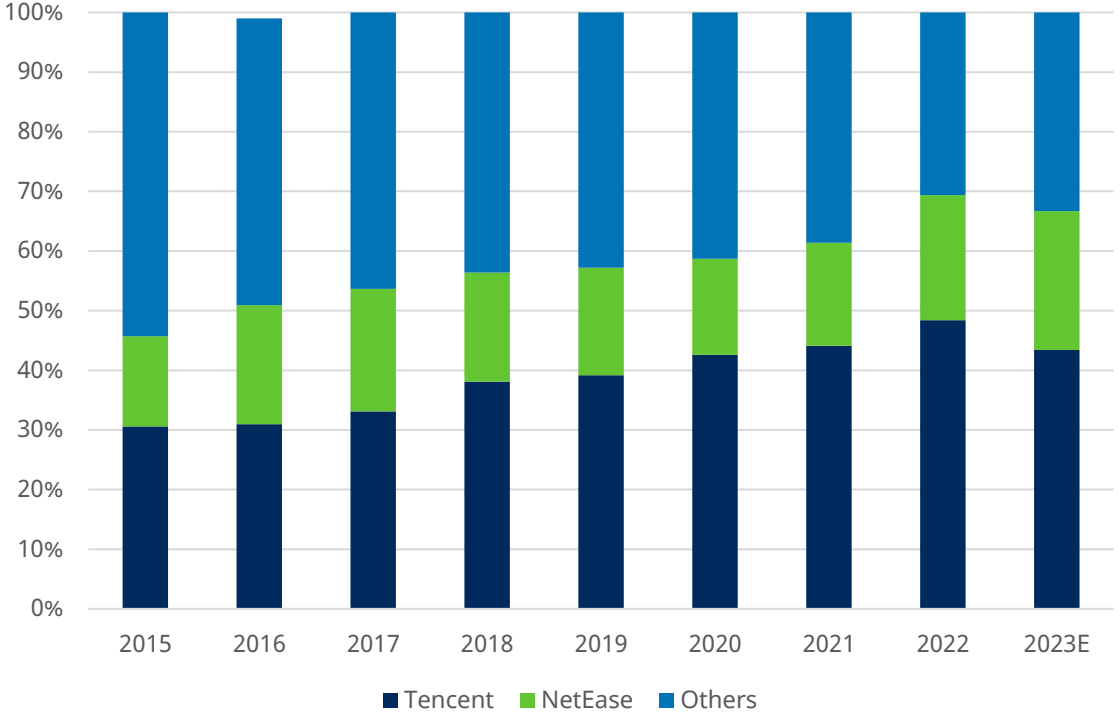
## E-commerce – not a duopoly<sup>1</sup>

E-commerce market share



## China gaming – a duopoly<sup>2</sup>

China gaming market share



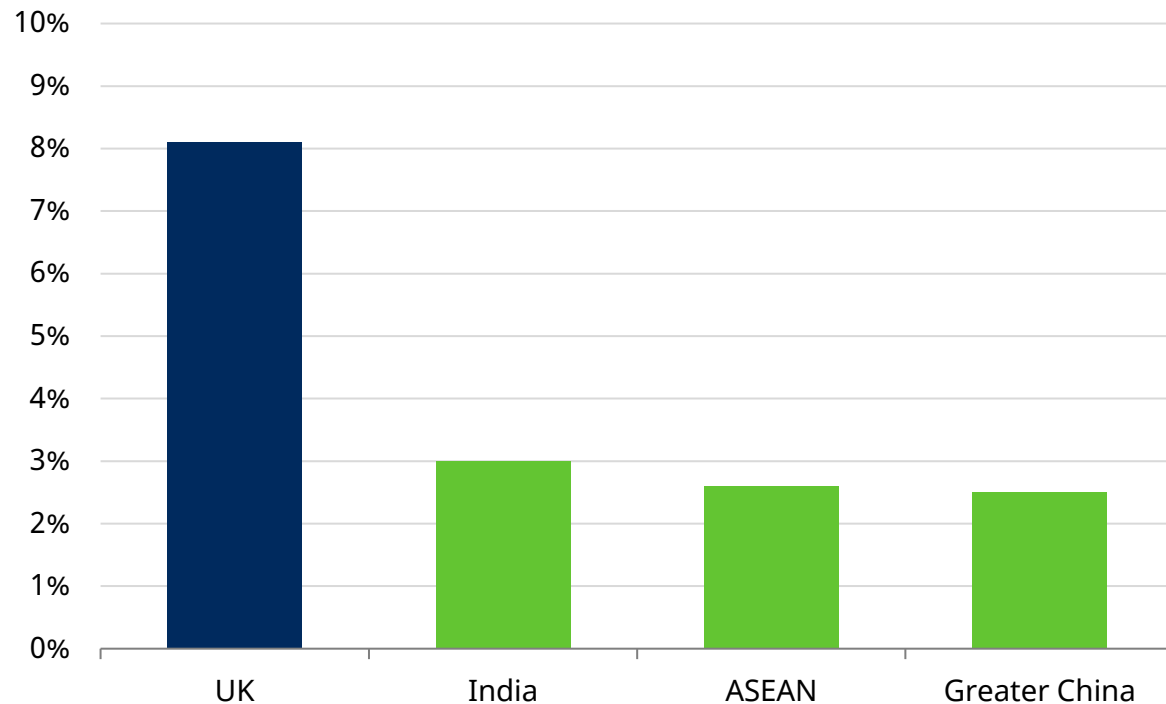
**Past Performance is not a guide to future performance and may not be repeated.**

Source: <sup>1</sup>UBS; <sup>2</sup>Refintiv. March 2024. Forecast risk warning: please refer to the important information slide at the end of this presentation. Any reference to regions/countries/sectors/stocks/securities is for illustrative purposes only and not a recommendation to buy or sell.

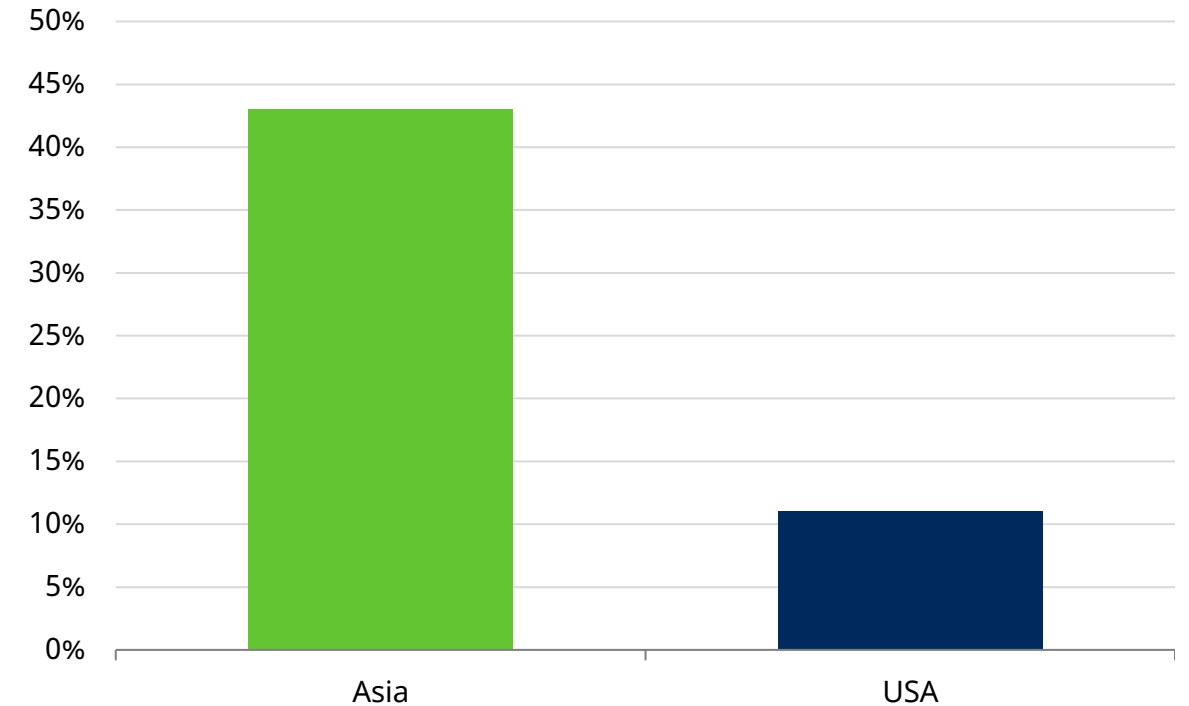
# Asian financials – penetration of insurance and credit still low in many markets

Low levels of insurance cover and significant need for protection

Penetration<sup>1</sup>, % of GDP



Out-of-pocket health expenditure<sup>2</sup>



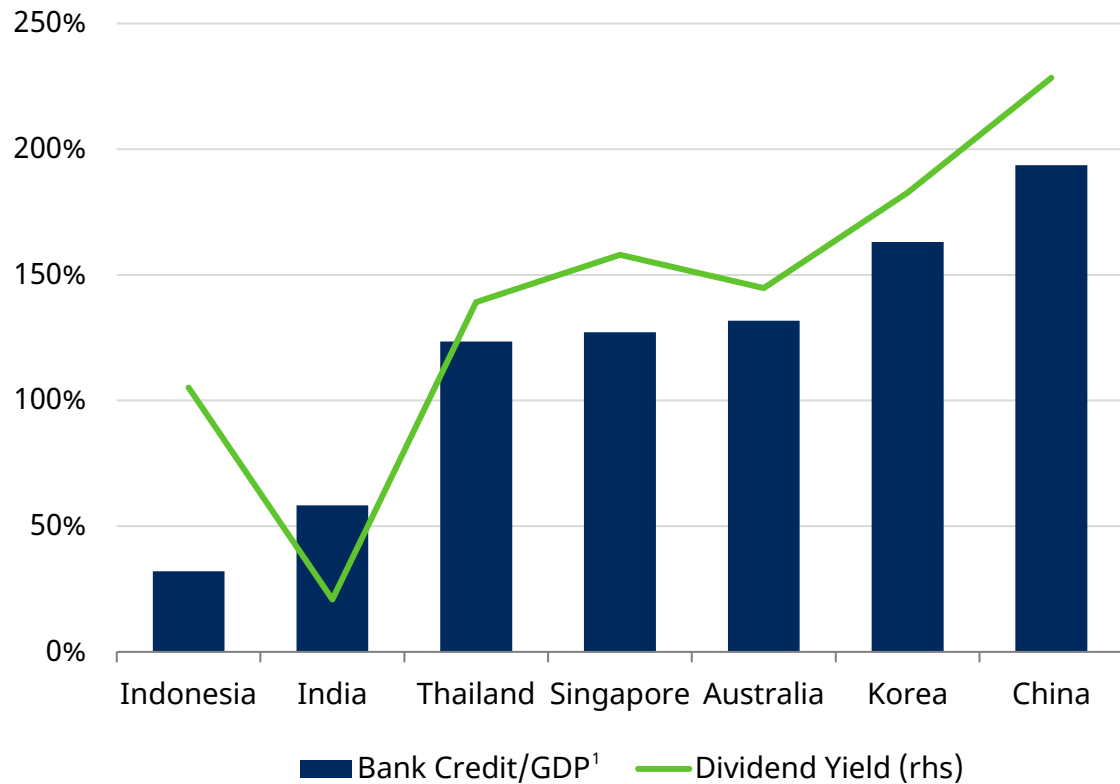
Source: <sup>1</sup>Swiss Re, 3/2023: World Insurance: stirred and not shaken. <sup>2</sup>World Health Organisation, Global health repository (2018). Out-of-pocket as a percentage of total health expenditure. Asia calculated as the average of the out-of-pocket percentages.

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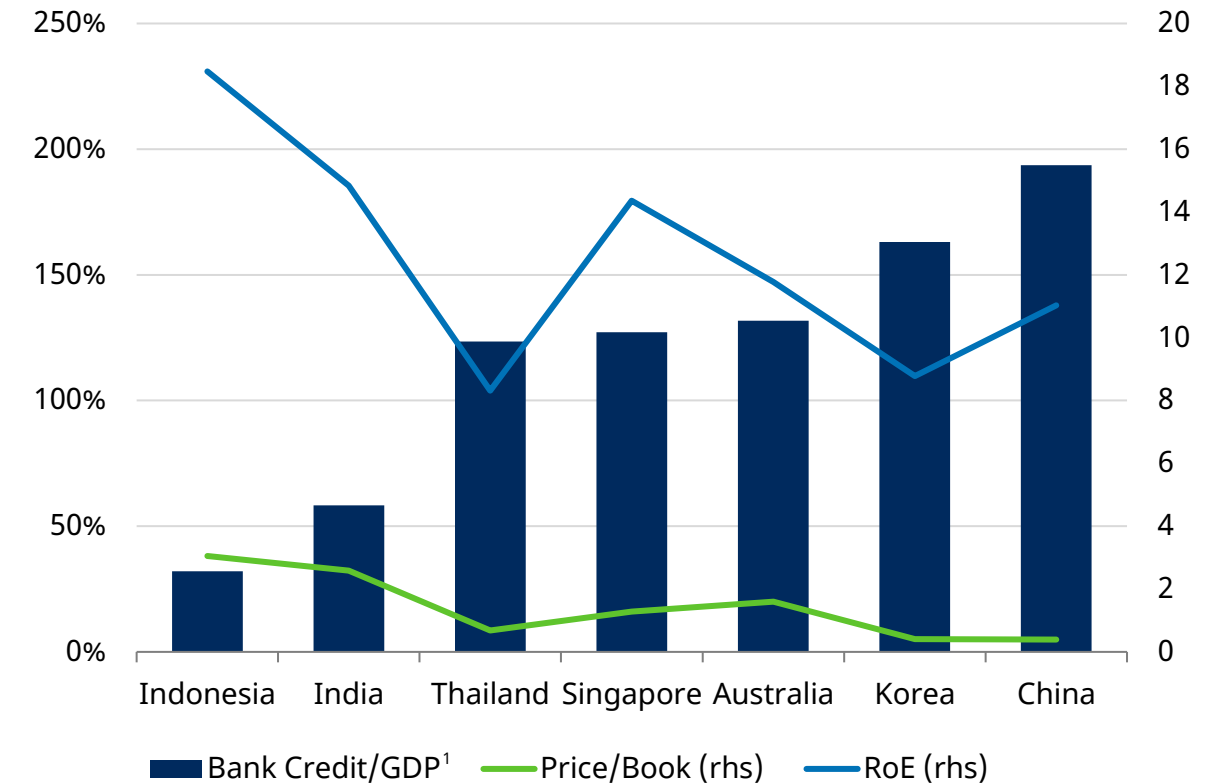
# Asian financials – Banking sector not homogenous across the region

Underpenetrated markets offer growth, more mature dividend yield

## Shareholder return a focus



## Attractive valuations with reasonable returns



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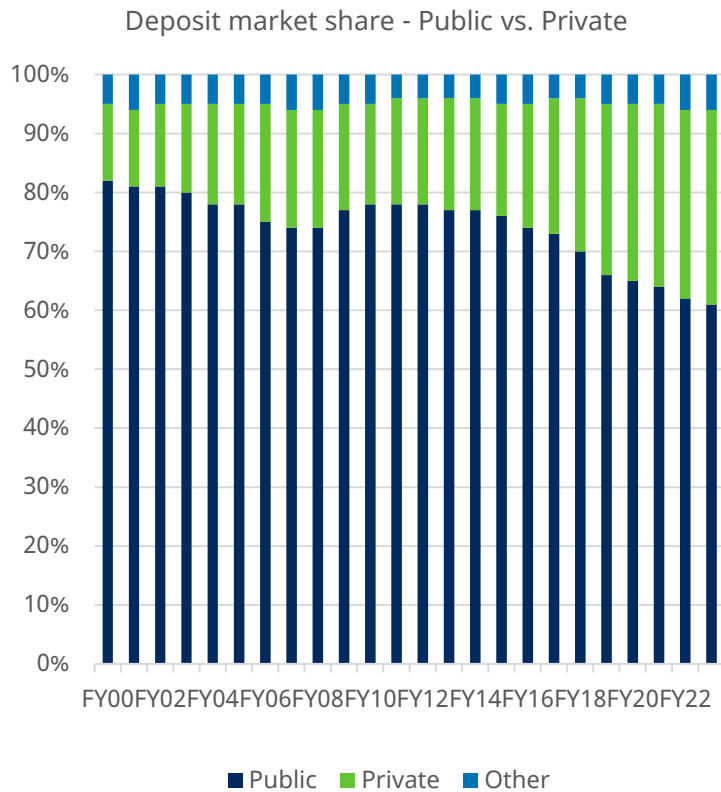
Source: BIS, MSCI, Factset, January 2024. <sup>1</sup>Domestic bank credit to private non-financial sector.

Countries, regions and sectors shown are for illustrative purposes only and should not be viewed as a recommendation to buy or sell. Forecast risk warning: please refer to the important information slide at the end of this presentation.

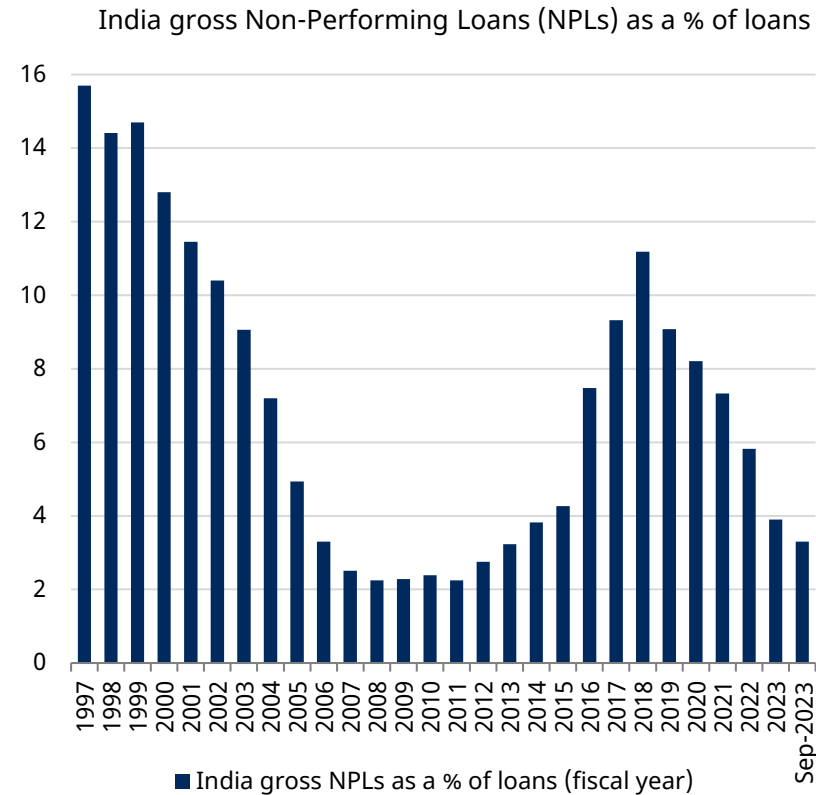
# Indian private banks

Appealing runway of growth at good returns

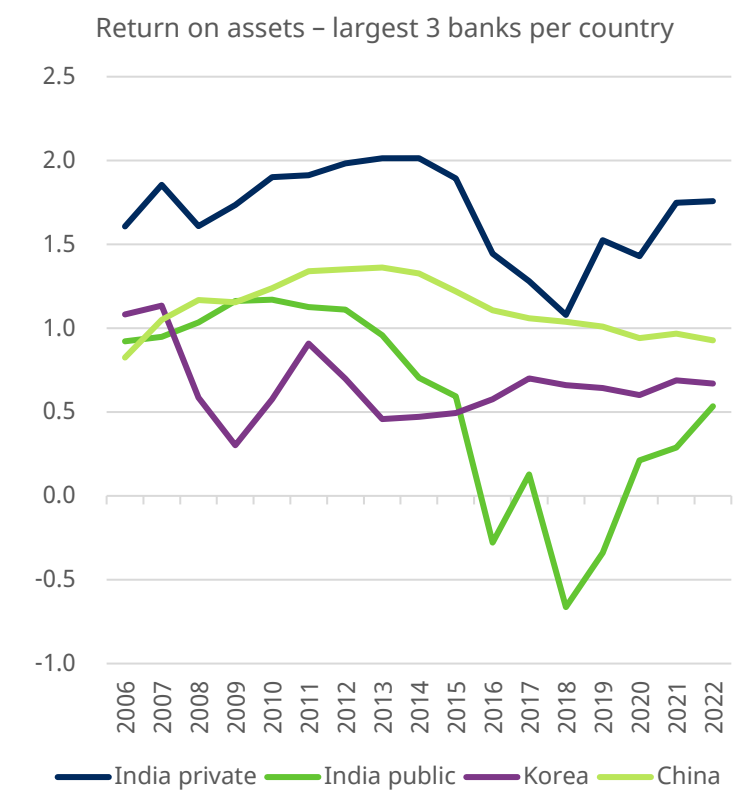
## Structural market share growth<sup>1</sup>



## Strong asset quality<sup>2</sup>



## Attractive returns<sup>3</sup>



Source: <sup>1</sup>RBI, Autonomous as at September 2023. <sup>2</sup>Jefferies, January 2024. <sup>3</sup>India private = HDFC Bank, ICICI Bank and Axis Bank; India Public = State Bank of India, Bank of Baroda and Punjab National Bank; China = China Construction Bank, ICBC and Bank of China; Korea = KB Financial, Shinhan Group, Hana Financial Group. India figures are 31/03/2023 year-end (shown as 2022 on the graph), all other countries are 31/12/2022 year-end. For illustrative purposes only and does not constitute to any recommendations to buy or sell the above-mentioned security/sector/country.

# Schroder AsiaPacific Fund plc

## Investment objective and policy

The Company's principal investment objective is to achieve capital growth through investment primarily in equities of companies located in the continent of Asia (excluding the Middle East and Japan), together with the Far Eastern countries bordering the Pacific Ocean. It aims to achieve growth in excess of the MSCI All Countries Asia excluding Japan Index in sterling terms (Benchmark Index) over the longer term.

The Company principally invests in a diversified portfolio of companies located in the continent of Asia (excluding the Middle East and Japan) (for the purposes of this paragraph the "region"). Such countries include Hong Kong/China, Singapore, Taiwan, Malaysia, South Korea, Thailand, India, The Philippines, Indonesia, Pakistan, Vietnam and Sri Lanka and may include other countries in the region that permit foreign investors to participate in investing in equities, such as in their stock markets or other such investments in the future. Investments may be made in companies listed on the stock markets of countries located in the region and/or listed elsewhere but controlled from within the region and/or with a material exposure to the region.

The portfolio is predominantly invested in equities, but may also be invested in other financial instruments such as put options on indices and equities in the region. The Company does not use derivative contracts for speculative purposes. The Company may invest up to 5% of its assets in securities which are not listed on any stock exchange but would normally not make such an investment except where the Manager expects that the securities will shortly become listed on a stock exchange. In order to maximise potential returns, gearing may be employed by the Company from time to time. Where appropriate the Directors may authorise the hedging of the Company's currency exposure.

# Important information

## Marketing material.

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. Exchange rate changes may cause the value of any overseas investments to rise or fall.

The Schroder Oriental Income Fund and the Schroder AsiaPacific Fund are investment trusts. Before investing in an Investment Trust, refer to the prospectus, the latest Key Information Document (KID) and Key Features Document (KFD) at [www.schroders.co.uk/investor](http://www.schroders.co.uk/investor) or on request.

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# Important information

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