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Schroder ISF* Greater China

Fund Manager: Louisa Lo | Fund update: Q2 2025

Performance overview

- Chinese equities rose modestly during the quarter, but underperformed other Asian markets in aggregate. They slumped early in the quarter as the US announced huge trade tariffs on Chinese imports into the US. However, they soon recovered as the US administration softened its stance and started trade negotiations. By the end of the period, a deal of sorts seemed to be close.
- The Hong Kong market produced double-digit returns, benefitting from strong fund flows from mainland China.
- In Taiwan, the market rallied strongly after the tariff-related sell-off in early April, especially in June, on renewed optimism regarding AI capex and an easing in trade concerns.
- The fund posted a positive return, but underperformed the target benchmark (MSCI Golden Dragon (NDR)) over the period.

Drivers of fund performance

- At the sector level, allocation was the main detractor, with the underweight to information technology (IT) and overweight to consumer discretionary weighing on returns. Stock selection was also weak, especially in IT.
- At the regional level, selection had a positive effect, with the best returns coming from the fund's China stocks. However, regional allocation detracted, with the underweight to Taiwan and overweight to China weighing on performance.
- Regarding stock contributors, the best relative performance came from the overweight positions in **Shandong Gold Mining** and **NetEase**, and the underweight exposure to **PDD Holdings**.
- The greatest detractors were the underweight position in **TSMC**, and the overweight holdings in **Meituan** and **Shenzhou International Group.**

Portfolio activity

- We added to the holding in **China Construction Bank** owing to its high relative yield in a low-interest rate environment. We bought shares in **Trip.com** on a dip in its share price as its business remains stable, with limited impact from increased competition. We also reduced the underweight exposure to **PDD Holdings**.
- We sold shares in **JD.com** due to its heightened business risk from increasing competition. We also took profits in **Innovent Biologics** and **NetEase**.

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.

Calendar year performance (%)

	Fund	Target	Comparator
2024	6.7	22.5	12.8
2023	-9.2	-0.9	-8.7
2022	-23.6	-22.3	-27.5
2021	-7.1	-9.5	-7.3
2020	43.0	28.2	38.9
2019	25.1	23.8	28.9
2018	-11.8	-14.8	-21.1
2017	45.8	43.8	44.9
2016	6.5	5.4	-1.0
2015	-3.2	-7.4	-3.4

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD A Acc share class, as at 31 December 2024. The fund's performance should be assessed against its target benchmark being to exceed the MSCI Golden Dragon (Net TR) index and compared against the Morningstar Greater China Equity Category. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark. The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the investment manager invests the fund's assets.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Outlook/positioning

- The twists and turns in trade developments, tensions in the Middle East, and the sharp reversal in the economic outlook for the US led to a very turbulent market in the second quarter.
- Following the trade framework agreement signed in London in early June, further details of the bilateral deal between China and the US were discussed. These included an easing of Chinese rare earth exports and a relaxation by the US of certain technology restrictions. Trade negotiations appear to be positive so far, but the level of uncertainty remains high, and the negotiation process may extend beyond 90 days due to the complex trade relationship between China and the US.
- Tariffs have significantly raised volatility in markets and led to large swings in currencies and uncertainty about corporate strategies; they have also led to question marks over consumers' tolerance of higher tariff-driven costs and their potential preference for alternative products. In addition, they have lowered corporate and investor confidence globally and may continue to cause damage to markets for a prolonged period.
- Domestically, the market anticipates additional pro-growth policies from the authorities to stimulate the subdued macroeconomic environment. However, expectations for the July politburo meeting remain low, as economic activities are expected to stay stable in the next quarter or two due to positive trade developments.
- Sentiment towards China has improved this year due to advances in AI and electric vehicles, as well as government support for the private sector. However, gains may be limited to these areas until the broader economy and trade tensions stabilise later in the year.
- In Taiwan, we continue to adopt a selective and cautious approach towards the market, given that the risk-reward profile has become less favourable following the sharp recovery. Additionally, the sharp appreciation of the New Taiwan dollar is expected to adversely affect corporate earnings in the short term, considering Taiwan's export-driven economy.

Risk considerations

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

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.

Concentration risk: The fund 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 fund, both up or down.

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

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.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Higher volatility risk: The price of this fund may be more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares, meaning investors may not be able to have immediate access to their holdings.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

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.

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