

## Schroder ISF\* Greater China

Fund Manager: Louisa Lo | Fund update: Q1 2025

## Performance overview

- China's markets performed strongly over the first quarter of 2025, despite investor concerns over looming trade tariffs on imported goods into the US. The market benefited from optimism about China's AI capabilities following the initial release of DeepSeek's lower-cost open-source AI model in January. The announcement towards the end of the quarter of a number of stimulus measures aimed at supporting domestic consumption also boosted share prices.
- Hong Kong's market rose only modestly, while Taiwan was weak, as the market continued to fall on concerns about slowing global AI capex spending and tariff risks.
- The fund produced a positive return and outperformed the target benchmark (MSCI Golden Dragon (NDR)) over the period.

## Drivers of fund performance

- At the sector level, allocation proved to be the key driver of returns, with the underweight exposure to information technology and overweight to consumer discretionary having the greatest positive effects. Stock selection detracted, however, and was notably weak in consumer discretionary, which offset positive performance in materials.
- At the regional level, the underweight to Taiwan contributed strongly, while the overweight to China was also beneficial. Selection in China weighed on performance, while it also detracted in Taiwan.
- Regarding stock contributors, the best relative performance came from the underweight to **TSMC**, and the positions in **Shangdong Gold Mining** and **WuXi Biologics**.
- The greatest detractors were the holdings in **Xiaomi** and **King Yuan Electronics**, and the zero weighting in PDD Holdings.

## Portfolio activity

- We purchased a stake in **Kuaishou Technology** as a beneficiary of AI applications in its advertising and e-commerce businesses. We bought shares in **Will Semiconductor** owing to its exposure to high-growth autonomous driving in China. Another purchase was smartphone and electric-vehicle (EV) manufacturer **Xiaomi** due to the rising use of AI applications in its products.
- We took profits in **Hon Hai Precision, Alibaba** and **Tencent**.

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.

## Outlook/positioning

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- Looking ahead, geopolitical dynamics remain challenging. Volatility in China's markets will likely stay elevated as they continue to wax and wane with the evolution of US-China tensions, especially the development of tariff. Macroeconomic data could also weaken in the coming quarters due to the impact of trade tariffs, and that may hurt sentiment. Additionally, while US interest rates have started to come down, the path to further easing is uncertain. Any change in rate expectations will drive more volatility in the market.
- That said, overall sentiment towards China's markets is likely to trend structurally better led by the technological breakthroughs from DeepSeek and the government's positive tone towards the private sector. As AI is increasingly being adopted by companies to save costs and improve efficiency, the market is starting to price in the positive earnings impact from this development.
- However, we reiterate that fundamental improvements in the Chinese macroeconomic environment are needed for market gains to broaden and be sustained. Escaping from deflation is key to attracting global investors back into China's markets. To achieve this, Beijing will need to deliver effective policies to address the economic challenges of demand-supply imbalances and weak consumer confidence, among others.
- From a technical perspective, the outlook is encouraging. Valuations for Chinese stocks remain reasonable, despite the recent rally. Overall demand-supply dynamics in the market have also improved, thanks to more corporate share buybacks and the People's Bank of China's additional funding for the equity market. Finally, investor positioning in China is still light.
- In Taiwan, the very full valuation of the market after two years of strong performance has left the market vulnerable to further downside. We remain selective in our investment and prefer stocks that are globally competitive, with strong pricing ability and earnings visibility.

## Risk considerations

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**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.

**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 – efficient portfolio management:** Derivatives 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 volatile as it may take higher risks in search of higher rewards.

**IBOR risk:** The transition of the financial markets away from the use of interbank offered rates (IBORs) to

alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

**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.

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

**Onshore renminbi currency risk:** The fund can be exposed to different currencies. Changes in foreign exchange rates could create losses. 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.

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

**Stock connect risk:** The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

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