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Schroder ISF* Greater China

Fund Manager: Louisa Lo | Fund update: May 2025

Performance overview

- Chinese equities rallied, but underperformed other Asian markets in May. The market was supported by a large reduction in trade tariffs between the US and China on most goods and the announcement of a 90-day truce. Domestically, policymakers unveiled more easing measures to support the economy. The Taiwanese market was stronger, buoyed by its technology sector on renewed optimism about AI capex.
- 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) weighing on returns. Stock selection was also weak, especially in IT.
- At the regional level, selection had a positive effect, with the fund’s Hong Kong stocks contributing well. 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 positions in **CSPC Pharmaceutical**, **AIA Group** and **King Yuan Electronics**.
- The greatest detractors were the underweight position in **TSMC**, and the holdings in **KE Semiconductor** and **Will Semiconductor**.

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

- The temporary tariff reduction agreed between the US and China is a positive surprise, although the uncertainty level remains significant as negotiations continue. The process might extend beyond 90 days due to the intricate trade relationship between the two countries. Additional tariffs are also possible, especially if China fails to address US concerns over fentanyl imports.
- Tariffs have significantly raised volatility in markets and led to large swings in currencies and uncertainty about corporate strategies, alternative products and consumers’ reaction to higher tariff-driven costs. They have also lowered corporate and investor confidence globally and may continue to cause damage to markets for a prolonged period.

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- Domestically, the Chinese government's pro-growth policy stance will likely continue, given the subdued macroeconomic environment. However, large-scale fiscal stimulus seems unlikely as economic activities may remain stable in the next quarter or two due to positive trade developments.
- Sentiment towards China has improved this year amid advances in artificial intelligence (AI) and electric vehicles, and the government's support for the private sector. However, gains may be limited to these areas until the broader economy and trade war potentially stabilise later in the year.
- In Taiwan, renewed optimism around AI capex and the moderation of trade concerns provided support to the markets in May, but these two risks have not been entirely removed and will likely limit near-term upside potential. We remain selective, focusing on globally competitive stocks with strong pricing and earnings visibility.

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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