

Schroder ISF* China Local Currency Bond

Fund Manager: Julia Ho | Fund update: March 2025

Market Overview

- China's Q1 GDP growth and March activity data surprised to the upside, reflecting resilient momentum in the first quarter. The expanded consumer trade-in and equipment upgrade programs likely provided a notable boost, supported by front-loaded export shipments ahead of the anticipated US tariff hikes. Industrial production, retail sales, fixed asset investments, and exports all recorded solid sequential gains. On the property front, national sales value in March was largely flat, while primary home prices stabilized.
- The PBOC remained focused on stabilizing the RMB and preventing excessive moves. With the fading US exceptionalism narrative, the RMB gained 0.59% in March. Meanwhile, China's bond market remained in a stalemate, with 10-year CGB yields little changed at 1.81%.
- The Fund (CNH C Acc, net of fees) posted -0.35%, slightly trailing its benchmark, the Markit iBoxx ALBI China Onshore Index, which gained -0.31%.

Drivers of Fund Performance

- Both rates positioning and spreads strategies contributed to active returns but were weighed down by the long USD position.
- Security selection in policy banks and allocation to the Financials sector contributed to active returns, although this was modestly offset by allocation to the Industrials sector.
- The Fund's long US duration stance in USD credits also benefitted from the rally in US rates.

Outlook and Positioning

- The growth outlook for the rest of the year remains challenging, as a sizable negative shock from tariffs is expected. While the US and China are likely to engage in trade negotiations, which could result in some exemptions/roll-backs of tariffs to manage the risks of a supply chain meltdown, the negotiation process will likely to be lengthy and fraught with uncertainties.
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- As PBOC remains focused on supporting domestic demand and strengthening market confidence, it is likely to stabilize the RMB and prevent excessive moves. Nonetheless, the RMB is expected to remain volatile amid a tug-of-war over US tariffs. However, positive investor sentiments toward China's improved growth prospects, narrowing US-China rate differentials, and increasing foreign demand for Chinese onshore bonds as portfolio diversifiers should help provide structural support for the RMB over the medium term.
- China credit markets should stay relatively well insulated, supported by strong technicals for China credit, and expectations of more easing by policymakers to stabilize the economy. The relaxation of the Mutual Recognition of Funds scheme could also unlock flows into the China credit market over the long term. That said, we remain defensive and stay up-in-quality, favouring issuers within the Real Estate and Industrials.

Calendar Year Performance (%)

Year	Fund ¹	Index ²
2024	7.6	8.4
2023	5.6	4.6
2022	1.1	3.5
2021	4.9	6.1
2020	2.0	2.5
2019	4.2	4.4
2018	7.6	8.5
2017*	0.4	1.7
2016*	2.8	4.1
2015*	2.3	2.2

Source: Schroders as at 31 December 2024, based on Schroder ISF China Local Currency Bond C Acc CNH share class, net of fees, bid to bid. ¹ The fund was renamed Schroder ISF China Local Currency Bond Fund from Schroder ISF RMB Fixed Income Fund effective 1 July 2019. There was no change made to the investment objectives or strategy.

² With effect from 1 May 2019, Markit iBoxx China Onshore index began to include Chinese policy bank bonds.

*The fund changed investment strategy focus from China offshore investment grade bonds to China onshore bonds, effective 1 June 2017.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Risk Considerations

The capital is not guaranteed.

In order to access restricted markets, the fund may invest in structured products. Should the counterparty default, the value of these structured products may be nil.

Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk.

A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities.

Investments in money market instruments and deposits with financial institutions may be subject to price fluctuation or default by the issuer. Some of the amounts deposited may not be returned to the fund.

Currency derivative instruments are subject to the default risk of the counterparty. The unrealised gain and some of the desired market exposure may be lost.

Investments denominated in a currency other than that of the share-class may not be hedged. The market

movements between those currencies will impact the share-class.

Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa.

Emerging markets will generally be subject to greater political, legal, counterparty and operational risk.

Emerging equity markets may be more volatile than equity markets of well established economies. Investments into foreign currencies entail exchange risks.

The fund may hold indirect short exposure in anticipation of a decline of prices of these exposures or increase of interest rate.

The fund may be leveraged, which may increase its volatility. The fund enters into financial derivative transactions. If the counterparty were to default, the unrealised profit on the transaction and the market exposure may be lost.

Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.

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