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Schroder ISF* China Local Currency Bond

Fund Manager: Ang Chow Yang | Fund update: October 2026

Market Overview

- China's economy has shown renewed momentum, though the recovery remains uneven and continues to lean on production, exports and policy support. Consumption showed some improvement in September, but goods spending remained soft, particularly in autos, as the impact of trade-in subsidies waned and earlier front-loading of purchases created an unfavorable base effect.
- Towards month-end, the State Council signalled a fresh round of measures to support economic activity and stabilise the property market. These policy signals helped improve sentiment towards property and consumption-related sectors, as investors looked ahead to the prospect of further policy easing and support for domestic demand.
- The Fund (CNH C Acc, net of fees) posted 0.33% in October, slightly underperforming its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered 0.36%.

Drivers of Fund Performance

- In gross terms, rates positioning were the key contributor to active returns, but were offset by spreads strategies.
- Allocation to Financials, Communications and Consumer Non-cyclical credits dragged the performance while our allocations to Sovereign and policy banks offset some of the losses.

Outlook and Positioning

- In October, global government bonds experienced a volatile (but ultimately stronger) month, with yields falling across most major markets. Starting the month close to a multi-decade high, US Treasuries led the rally as concerns over AI increasingly outweighed inflation fears. Strong inflation data complicated the outlook, but the Federal Reserve held rates at 3.75 - 4.00% as expected, despite two dissenting votes favouring tighter monetary policy.
- Domestically, China's economy continued to show improving momentum, supported by resilient exports, stronger industrial production and a modest recovery in consumption. However, the recovery remains uneven, with weak fixed asset investment and persistent property-sector pressures highlighting the continued divergence between external and domestic demand. Subdued underlying inflation also suggests that a more broad-based recovery in domestic demand is yet to take hold.
- On the other hand, US–China relations have come under renewed pressure ahead of the Trump–Xi meeting in APEC 2026 in November, following tighter US restrictions on advanced AI chips. Nevertheless, continued working-level engagement on trade suggests both sides remain willing to manage tensions and implement existing agreements. The summit will therefore be an important test of recent efforts to stabilise relations, although expectations for major breakthroughs remain relatively subdued.
- Overall in 2026, China government bond markets have remained relatively resilient despite heightened global rate volatility and geopolitical uncertainty. While policy support is increasingly being directed towards stabilising domestic growth and supporting confidence, onshore rates have remained relatively well anchored compared with many major markets.
- Against a backdrop of moderating inflation pressures, ample domestic liquidity and ongoing demand from local institutional investors, China fixed income continues to offer diversification benefits given its relatively low correlation to global bond markets.
- We expect China credit to stay well-anchored, supported by stable credit fundamentals and strong technicals. We keep our allocations within policy banks, Financials and Consumer sectors - issuers that have solid credit quality.

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

Calendar Year Performance (%)

Year	Fund[1]	Index[2]
2025	-0.7	-0.3
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

Source: Schroders, as of 31 December 2025, 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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