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Schroder ISF* China Local Currency Bond

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

Market Overview

- China's 3Q GDP growth reached 4.5% YoY from 4.3% in Q2, slightly beating market expectations and bringing year to date growth to 4.6% YoY. The improvement in GDP was largely driven by stronger industrial production, underpinned by continued export outperformance.
- While September activity data showed a modest improvement in domestic demand, the activity data remains very subdued by historical standards, with retail sales growth rising to 1.1% YoY while fixed asset investment growth stabilised at -7.2% YoY. The property sector remaining the largest drag on investment.
- The CNY continues to further appreciate in September as PBOC eases curb ahead of Trump-Xi Summit, alongside strong exports/ trade balance.
- The Fund (CNH C Acc, net of fees) posted 0.31% in September, underperforming its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered 0.33%.

Drivers of Fund Performance

- In gross terms, spread positioning were the key contributor to active returns, but were offset by rates and FX positioning
- Allocation to Financials, Industrial and Consumer Non-cyclical credits helped with performance while Sovereign and policy banks detracted the performance.
- On the other hand, a Hong Kong Real Estate name and Quasi-sovereigns further boosted performance, while off benchmark exposure to basic materials hurt the portfolio.

Outlook and Positioning

- In September, the Fed delivered its first 25bp rate hike in over three years, in line with market expectations, with unanimous support from all FOMC members. While changes to the policy statement were limited, the Fed reinforced its commitment to restoring price stability and returning inflation to its 2% target. Continued economic resilience, firm labor market, sticky inflation, and elevated energy prices were cited as key reasons for tightening policy. On the other hand, the updated Fed projections point to stronger growth and lower unemployment relative to earlier forecasts, suggesting policymakers remain confident in the economy's ability to absorb higher rates.
- Domestically, China's 3Q GDP growth edged higher with activity data showing a modest improvement. The property sector remained a key drag on activity, with real estate investment contracting and home prices continuing to decline. The main bright spot was industrial production, where its growth accelerated, supported by robust expansion in high-tech manufacturing and equipment-making industries.
- On the other hand, the September US-China meeting between President Xi and Trump were generally viewed as constructive, with talks focused on areas such as trade, technology restrictions and rare-earth supply chains. While expectations for a major breakthrough remained modest, any incremental progress could help reduce policy uncertainty and support market sentiment.
- 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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