

Schroder ISF* China Local Currency Bond

Fund Manager: Julia Ho | Fund update: August 2025

Market Overview

- China's August domestic activity data fell short of expectations. Growth in both industrial and service production slowed, though it continued to outpace domestic demand. Retail sales were subdued as the impact of trade-in subsidy gradually faded. Fixed asset investment weakened further, reflecting anti-involution policies and spillover effects, with deeper contractions across major components such as real estate, infrastructure, and manufacturing.
- Meanwhile, both budget revenue and expenditure growth softened in August, dragged down by weaker non-tax revenue and infrastructure-related spending.
- The RMB gained 1.21% against the USD, supported in part by rising foreign investor interest in the A-share equity market. The China government bond (CGB) curve mildly steepened, with the 10-year yield edging up to 1.71%.
- The Fund (CNH C Acc, net of fees) returned -0.64% in August, trailing its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered -0.50%.

Drivers of Fund Performance

- Rates positioning delivered positive active returns; however, overall performance was weighed down by spreads strategies.
- While the rally in US rates supported our long US duration stance, these gains were partially mitigated by the overweight China duration stance.
- Credit allocations to the Consumer, Transport, and Quasi-sovereign sectors contributed positively to returns, while exposure to policy banks partly detracted from performance.

Outlook and Positioning

- Following a strong first half, China's growth is expected to moderate in H2 2025, as global trade softens, though the 5% growth target remains largely intact. The anti-involution campaign, aimed at reducing destructive competition, normalizing prices, and improving profitability in the longer term, may bring near-term side effects such as slower economic/industrial activity. Nonetheless, effective implementation should gradually remove excess capacity and potentially help lift the economy out of deflation.
- We expect policymakers to continue relying on targeted and incremental fiscal measures, rather than introducing

new stimulus. That said, they are likely to tread cautiously in their efforts to handle the divergence between slowing economic activity and rising stock market euphoria. Prospective US Fed rate cuts and the associated decline in US yields should provide further space for monetary easing in China. Overall, this accommodative policy stance creates a supportive environment for CGBs.

- RMB sentiment has been buoyed by the rally in the onshore equity market and optimism surrounding US-China trade talks. Looking ahead, with the prospect of US-China leaders meeting in late October, the positive mood could persist in the near term. Coupled with the strong fixing bias and continued USD weakness, the RMB should remain well anchored.
- Staying up in quality remains key for China credits. Despite the soft economic data, the China credit market held steady, supported by expectations of further policy support. The relaxation of the Mutual Recognition of Funds scheme could also unlock longer-term inflows. We remain defensive in our allocation, favouring issuers within the Consumer, Transport, and Utilities sectors.

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 of 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.

²With 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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