

Schroder ISF* China Local Currency Bond

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

Market Overview

- China had a decent start to the year, with macro data showing broad-based improvement that exceeded market expectations. This was driven by surging export growth, a rebound in domestic activity growth, stabilising credit growth, and rising inflation. However, a closer look revealed that growth imbalance has remained apparent, with export-driven industrial production outpacing that of retail sales and fixed asset investments.
- The CNY gained +1.41% against the USD, as the PBOC remained tolerant of further currency appreciation. Meanwhile, the China Government Bond curve flattened slightly, with the 10-year yield at 1.83%.
- The Fund (CNH C Acc, net of fees) posted +0.35% in February, outperforming its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered +0.18%.

Drivers of Fund Performance

- Rates positioning was the key contributor to performance, more than offsetting the slight drag from the residual long USD position and spreads strategies.
- Our overweight China duration exposure and long US duration stance delivered the strongest returns.
- While the allocation to policy banks contributed positively to active returns, these gains were more than offset by detractions from the allocations to the TMT and Financials sector.

Outlook and Positioning

- China began the year on a strong footing, although geopolitical tensions in the Middle East have introduced downside risks to growth. We remain cautious, particularly regarding secondary effects through weaker global growth and tighter global financial conditions, despite China being better positioned than some Asian peers to absorb the oil shock.
- That said, China retains ample domestic policy space, specifically on the fiscal side, to respond to external shocks and stabilize the economy should external challenges rise more materially.
- Household sentiment remains weak, reflecting uncertain job prospects, slower income growth, and elevated precautionary savings. Declining property prices continue to erode household wealth effects. While supply-driven price increases generally raise costs and dampen demand, the end of deflationary pressures would be beneficial for the Chinese economy. Moderate supply-side price inflation could help anchor inflation expectations and break the negative feedback loop of weak expectations, consumption, and investment.
- Recent strong macro data have also affirmed the resilience of the CNY, reflecting PBOC's tolerance of CNY appreciation. However, geopolitical developments, such as delay in the Paris summit meeting between the US and China, could result in additional volatility in the currency.
- The PBOC is expected to maintain an accommodative stance, albeit more cautiously, as it balances domestic growth support with FX stability. This should keep rates broadly supported. Front-end rates are likely to remain capped, supported by ample liquidity, while long-end rates may drift higher on rebalancing inflation expectations.
- Against this backdrop, China credits are well-anchored and resilient. We continue to favour selective exposures, focusing on policy banks, Financials, and TMT names.

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. ¹The 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.

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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.