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Schroder ISF* China Local Currency Bond

Fund Manager: Julia Ho | Fund update: July 2025

Market Overview

- China's macro data for July mostly surprised on the downside, showing a noticeably softer momentum heading into Q3. Domestic activity growth has been weighed by a more cautious growth outlook, further property market correction, limited boost from consumption goods trade-in and capital equipment upgrade programmes, and some negative spillover from the anti-involution campaign. Trade growth accelerated, driven by stronger exports to the EU and EM economies.
- Meanwhile, credit data indicated a net contraction in total outstanding bank loans. To boost credit demand, policymakers announced temporary fiscal subsidies to support interest payments on consumer loans and investment loans for certain services business.
- Negotiations between the US and China are ongoing. RMB fell -0.31% against the USD, as the latter recouped some ground following the announcement of favourable trade deals for the US. China government bond yields rose, with the 10-year yield edging up to 1.71% amid a broader sell-off.
- The Fund (CNH C Acc, net of fees) returned -0.21% in July, trailing its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered -0.09%.

Drivers of Fund Performance

- Rates positioning was the key detractor from active returns, although gains from spreads strategies helped offset some of the losses.
- Our overweight China and US duration stances weighed on performance.
- On the other hand, credit allocation to Consumer, Quasi-sovereign, TMT, and Financials contributed to active returns.

Outlook and Positioning

- On the surface, the Chinese economy appears to be on solid footing. However, underlying details suggest that economic activity may soften further, particularly heading into Q4, due to the payback from frontloaded export orders and the impact of higher US tariffs. That said, household confidence still has room to recover, with the current savings rate remaining elevated compared to pre-Covid levels. This indicates the presence of excess deposits that could potentially be used for consumption and investment, supporting growth if consumer sentiment improves. Recently, maturing time deposits may shift into equities and help sustain market momentum, especially given the decline in deposit rates.
- Against this backdrop, Chinese policymakers are expected to maintain an accommodative policy stance, with a focus on implementing existing easing measures, alongside incremental and targeted support. We expect authorities to be ready to step up with more meaningful measures if there are clear signs of further data weakening. This means that onshore rates will likely remain supported, while real yields continue to offer attractive valuations.
- Meanwhile, the CNY fixing anchor has continued to drift lower, singling policymakers' support for a stronger currency. Given the PBOC's commitment to maintaining CNY stability, the currency is expected to remain well-supported.
- Staying up in quality remains key for China credits. Despite softer economic data, China credit market held steady, as expectations of more policy support helped create a stable backdrop. The relaxation of the Mutual Recognition of Funds scheme could also unlock longer-term flows into the China credit market. We remain defensive in our allocation, favouring issuers within the Financials, TMT, and Industrials 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 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.

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

[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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