

Schroder ISF* China Local Currency Bond

Fund Manager: Julia Ho | Fund update: October 2025

Market Overview

- China's activity data weakened across the board in October, signalling a continued growth slowdown heading into Q4. Industrial production declined following September's jump, though the underlying trend showed a modest improvement. Fixed asset investment contracted further as loan growth hit a new low, while retail sales held steady, supported by holiday tourism spending.
- Late in the month, US-China trade talks lifted sentiment, with both sides reaching a one-year trade deal that would pause steeper US tariffs and limit China's export controls on rare earth mineral.
- The RMB inched up 0.22% against the USD, driven partly by the stronger-than-expected fixings by the PBOC and trade deal optimism. The China government bond (CGB) curve flattened, with the 10-year yield falling modestly to 1.79%.
- The Fund (CNH C Acc, net of fees) returned +0.80% in October, outperforming its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered +0.58%.

Drivers of Fund Performance

- Positive returns from security selection within CGBs were offset by curve positioning.
- Credit allocations to the Consumer and TMT sectors contributed to returns.

Outlook and Positioning

- Despite the seemingly resilient growth in Q3 and the recent de-escalation in US-China trade tensions, downside risks to growth are rising, weighed down by multiple demand-side headwinds, such as an anticipated export slowdown and the sustained property decline. That said, exports have remained resilient even amid tariff uncertainty, supported by trade diversification and front-loading demand from other economies.
- The continued slowing growth momentum points to a need for further policy easing. We will watch for addition policy signals from the Politburo and Central Economic Work Conference in early December.
- The PBOC's balancing act between financial stability and growth support suggests that policymakers will remain prudent with easing measures, preserving policy space until growth shows clearer signs of drifting away from the 5% target. We continue to expect the central bank to maintain an accommodative bias, which should be supportive of the China rates space. Accordingly, we remain comfortable with a modest overweight duration stance in the Fund, given that the PBOC is likely to maintain an accommodative bias with ample interbank liquidity.
- Staying up in quality remains key for China credits as tariff developments remain fluid. 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.

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.

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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.