

Schroder ISF* China Local Currency Bond

Fund Manager: Julia Ho | Fund update: December 2025

Market Overview

- China's Q4 GDP came in within market expectations (at 4.5% y/y), helping the economy deliver its annual GDP growth target of 5%. Beyond the headline, however, the underlying data pointed to further divergence in the real economy, with continued softness in domestic demand. December macro data were mixed; industrial production rose, while retail sales growth eased further and fixed asset investment declined. CPI inflation rose to 0.8% y/y, continuing its mending path.
- CNY appreciated 1.31% against the greenback, as the PBoC has become more flexible in its CNY fixing, allowing for CNY appreciation in trade-weighted terms. China Government Bond (CGB) yields were little changed, with the 10-year yield hovering around 1.84%.
- The Fund (CNH C Acc, net of fees) returned -0.37% in December, trailing its benchmark, the Markit iBoxx ALBI China Onshore Index, which delivered -0.19%.

Drivers of Fund Performance

- Rates positioning was the primary contributor to returns. However, overall performance was weighed down by detractions from the residual long USD position and spreads strategies.
- Positive carry from the long US duration exposure was more than offset by losses from the overweight China duration stance.
- While credit allocations to the Financials and TMT sectors gained, security selection within policy bank names dragged on overall returns.

Outlook and Positioning

- January high-frequency data continued to display the divergence within China's economy, with continued domestic demand weakness alongside resilient trade activity. Elsewhere, the housing market remained under strain, as home sales, prices, and investment stayed soft, reinforcing subdued household and private sector confidence. Looking ahead, external demand and production could still be the pillars for growth in the new year, supported by the ongoing AI-fuelled tech upcycle.
- Policymakers are clearly well aware of this disconnect, as reflected in the recent pledges by various Chinese ministries to boost domestic demand and promote economic rebalancing. While the window for further policy easing remains open, we expect a targeted rather than a bazooka spending approach to avoid over-stimulating the economy. Policymakers are likely to delay meaningful stimulus until further deterioration becomes evident in the data. Nonetheless, this accommodative policy stance should continue to support the CGB market, particularly as the PBoC ensures ample liquidity in the market through open market operations and CGB purchases in the coming months.
- The USD/CNY fixing has trended lower, signalling the PBoC's ongoing tolerance for further CNY appreciation amid a weaker USD. That said, the currency has given back most of its gains against the CFETS basket, keeping authorities cautious about further signalling a one-way appreciation trend. As such, the CNY is likely to stay range-bound, supported by its strong external balances and a benign tariff backdrop.
- Tight spreads in China credit should hold, hence we are selective in our exposure, favouring higher quality and defensive issuers. With China's focus on the technology / AI sector to build its new economy, issuers in this segment are well positioned to benefit. We remain cautious on China Property, as sentiment is likely to remain fragile in the near term. We maintain allocations in 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. 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.