

Schroder ISF* China Local Currency Bond

Fund Manager: Julia Ho | Fund update: May 2025

Market Overview

- China's activity indicators were largely mixed in May. Retail sales growth surprised on the upside, boosted by the government's consumer trade-in programme. In contrast, growth in industrial production and fixed asset investment eased more than expected. May data from NBS showed that sales stayed soft, while the decline in home prices widened. Both CPI and PPI inflation continued to stay in contractionary zone, dragged by energy prices.
- The US and China tariff cuts in Geneva in mid-May were a positive surprise to markets. A new round of trade talks has commenced, accompanied by friendly gestures from both the US and China, such as export approvals for rare earths and the easing of US export controls.
- RMB appreciated 1.2% against the USD following the trade truce. 10-year China Government Bond yield was back into range-bound, ending the month little changed at 1.70%.
- The Fund (CNH C Acc, net of fees) posted 0.04%, modestly outperforming its benchmark, the Markit iBoxx ALBI China Onshore Index, which returned -0.14%.

Drivers of Fund Performance

- Spreads strategies were the key driver active returns, while rates strategies were modest contributors.
- Security selection within Quasi-sovereign, as well as allocations to the TMT and Transport sectors, delivered positive returns.
- The overweight China duration and residual long US duration stances weighed on active returns. However, in terms of curve positioning, the underweight at the long-end of the CGB curve more than offset these losses.

Outlook and Positioning

- May data shows limited imminent pressure, with economic activity supported by the consumer trade-in and capital equipment upgrades program, as well as front-loaded export shipments. That said, the growth outlook remains cloudy as we move into the second half of the year. Although trade de-escalation has provided some reprieve, US trade policy remains unpredictable, and trade negotiations between the US and China could prove bumpy.
- Given the prolonged weakness in the property sector, increased labour market stress, and the unsustainability

of export frontloading, additional policy easing measures are expected. However, the urgency for significant stimulus in the near-term appears lower, as year-on-year real GDP growth is on track to exceed 5% in the first half of 2025. Policymakers will be data-dependent, but it is clear that the government is determined to support the downside.

- On the monetary policy front, the PBOC should stay accommodative, keeping the door open for further rate and RRR cuts, given the prospect of weaker growth and continued deflationary pressures, especially if the RMB remains supported amidst USD weakness. This environment would in turn continue to support onshore rates, where real yields remain attractive. As for the RMB, the drop in the trade-weighted index should give the PBOC some breathing room to limit any near-term RMB weakness.
- Against this backdrop, we continue to maintain an overweight duration stance, as China rates could fall further on deflationary pressures and more monetary policy easing.
- Staying up in quality remains key for China credits. Policymakers are expected to reduce the tail risk in the system, helping to create a stable backdrop for China credits. Additionally, the relaxation of the Mutual Recognition of Funds scheme could unlock longer-term flows into the China credit market. We remain defensive, favouring issuers within the Industrials, Transport, and Consumer 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

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

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.

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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