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Schroder ISF* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: January 2025

Performance overview

- The Hong Kong market declined and underperformed other Asia markets in aggregate.
- Ongoing uncertainty about Donald Trump's proposed tariffs on US imports of Chinese goods weighed on sentiment. Chinese AI start-up DeepSeek released an open-source lower-cost AI model, comparable to OpenAI's large language model in terms of performance. As the market digested the implications of this news, market volatility rose, heavily affecting technology shares.
- Nearly all sectors ended in the red. Healthcare was the weakest performer, followed by technology and utilities. Energy was the only sector to rise.
- The fund produced a positive return and outperformed the benchmark over the period.

Drivers of fund performance

- At the sector level, stock selection had a notably positive effect, most particularly in consumer discretionary. The overweight to consumer discretionary also supported returns.
- At the market level, selection in Hong Kong was the key driver of performance. The exposure to off-benchmark China-listed stocks had a mildly positive effect.
- The best-performing positions were those in **Standard Chartered**, **Crystal International** and **Samsonite Group**.
- The weakest returns came from the underweight to **Hong Kong Exchanges & Clearing**, and the holdings in **New Oriental Education & Technology** and **Tencent**.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

Calendar year performance (%)

Year	Fund	Target	Comparator
2024	5.7	-0.1	14.8
2023	-15.1	-12.7	-12.8
2022	-12.5	-7.0	-15.1
2021	-11.6	-4.1	-11.6
2020	21.2	7.5	11.4
2019	16.1	11.8	12.9
2018	-14.3	-10.2	-12.8
2017	50.5	36.3	40.7
2016	0.4	4.1	0.6
2015	-5.1	-4.3	-5.0

Source: Schroders, net of fees, NAV to NAV, with net income reinvested. USD A Acc share class, as at 31 December 2024. The fund's performance should be assessed against its target benchmark being to exceed the FTSE Hong Kong (Net TR) index and compared against the Morningstar Hong Kong Equity Category. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark. The comparator benchmark is only included for performance comparison purposes and does not have any bearing on how the investment manager invests the fund's assets.

Outlook/positioning

- The direction of the Hong Kong and China markets remained heavily influenced by the tensions between the US and China in January. The addition of Chinese stocks onto the US's CMC (Chinese military companies) list and the softer-than-feared tariff decisions were key drivers. In Hong Kong, higher-for-longer interest rates, property market weakness and falling retail sales are key challenges. New World Development's latest credit concerns highlighted the problem.
- Looking ahead, the return of Trump is likely to bring greater uncertainty to the Hong Kong market, given tariff threats, higher inflation risks, and upward pressure on the US dollar and interest rates. A slower reduction in interest rates will hinder the recovery of Hong Kong's property market. A strong-

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

- for-longer Hong Kong dollar, as a result of high interest rates, will also undermine the attractiveness of Hong Kong as a travel destination, adversely affecting the overall consumer market.
- In mainland China, we continue to look for more effective fiscal policy support from the authorities to enhance the economic recovery. Specifically, domestic consumption and investment demand will need to pick up, and the property market will need to stabilise for the economy to bottom out. Longer-term, China needs to implement effective structural and economic reform in order to shake off its prolonged weakness.
- Technically, there is less of a contrarian and valuation argument in favour of the market after the recovery in 2024, but we still see solid downside
- protection in the market, as valuations remain reasonable. The market's demand/supply dynamics have also improved, thanks to increased share buybacks and reduced capital fundraising. However, a sustainable market recovery will require a less hawkish US Federal Reserve, reduced volatility in US-China relations and a more positive cyclical outlook for China. Visibility is limited on many of these fronts. We remain very selective in our exposure, and pportfolio construction will remain focused on keeping a healthy level of diversification across growth and value ideas.

Risk considerations

Counterparty risk: The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.

Currency risk: The fund may lose value as a result of movements in foreign exchange rates.

Concentration risk: The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.

Derivatives risk – efficient portfolio management: Derivatives may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

Higher volatility risk: The price of this fund may be volatile as it may take higher risks in search of higher rewards.

IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

Liquidity risk: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.

Market risk: The value of investments can go up and down and an investor may not get back the amount initially invested.

Operational risk: Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

Performance risk: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macroeconomic environment, investment objectives may become more difficult to achieve.

Stock connect risk: The fund may be investing in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.

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