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Schroder ISF* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: Q2 2025

Performance overview

- The Hong Kong market produced positive returns during the quarter and strongly outperformed other Asian markets in aggregate. They slumped early in the quarter as the US announced huge trade tariffs on Chinese imports into the US. However, they soon recovered as the US administration softened its stance and started trade negotiations. By the end of the period, a deal of sorts seemed to be close.
- Most sectors gained, with the strongest returns coming in basic materials and energy in particular, while financials and real estate also performed notably well. Only technology and healthcare produced negative returns.
- The fund produced a positive return, but significantly underperformed the benchmark over the period.

Drivers of fund performance

- At the sector level, stock selection was weak, especially in consumer discretionary. The overweight to consumer discretionary and technology, and the underweight to financials also weighed on returns. The zero exposure to utilities, however, proved to be beneficial.
- At the market level, selection was also weak. The off-benchmark exposure to China was a notable detractor.
- The best-performing positions were the zero weightings in both **Lenovo Group** and **CLP Holdings**, and the holding in **Xiaomi**.
- The weakest returns came from the underweight position in **AIA Group,** and the holdings in **Alibaba** and **Crystal International**.

Portfolio activity

- We added more to the position in **Alibaba** to gain exposure to AI and the cloud in China. We also added to **Tencent** because of its strong gaming pipeline and the benign state of competition in the industry. A further addition was **Xiaomi** as we expect strong electric vehicle sales to support the share price.
- We took profits in **Prudential**, **Hang Lung Properties** and **Kerry Properties**.

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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 twists and turns in trade development, tensions in the Middle East, and the sharp reversal in the economic outlook for the US led to a very turbulent market in the second quarter.
- Following the trade framework agreement signed in London in early June, further details of the bilateral

*Schroder International Selection Fund is referred to as Schroder ISF throughout deal between China and the US were discussed. These included an easing of Chinese rare earth exports and a relaxation by the US of certain technology restrictions. Trade negotiations appear to be positive so far, but the level of uncertainty remains high, and the negotiation process may extend beyond 90 days due to the complex trade relationship between China and the US.

- Tariffs have significantly raised volatility in markets and led to large swings in currencies and uncertainty about corporate strategies; they have also led to question marks over consumers' tolerance of higher tariff-driven costs and their potential preference for alternative products. They have also lowered corporate and investor confidence globally and may continue to cause damage to markets for a prolonged period.
- Domestically, the market anticipates additional pro-growth policies from the authorities to stimulate the subdued macroeconomic environment. However, expectations for the July politburo meeting remain low, as economic activity is expected to stay stable in the next quarter or two due to positive trade developments. We reiterate that the effectiveness of policy measures in stabilising the housing market and boosting consumption will determine whether the market recovery broadens later in the year.
- In Hong Kong, a sustainably lower HIBOR (Hong Kong Interbank Offered Rate) is likely to boost homebuying sentiment. It could also improve loan growth and reduce asset quality pressure in the commercial real estate sector, which has been battered by higher rates and subdued demand.

Risk considerations

Capital risk / distribution policy: If the fund invests in the China Interbank Bond Market via the Bond Connect or in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect or in shares listed on the STAR Board or the ChiNext, this may involve clearing and settlement, regulatory, operational and counterparty risks. If the fund invests in onshore renminbi-denominated securities, currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.

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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.

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: If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

Currency risk / hedged share class: The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.

Derivatives risk: Derivatives, which are financial instruments deriving their value from an underlying asset, 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 more volatile as it may take higher risks in search of higher rewards, meaning the price may go up and down to a greater extent.

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, meaning investors may not be able to have immediate access to their holdings.

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 macro economic environment, investment objectives may become more difficult to achieve.

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