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Schroder ISF* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: July 2025

Performance overview

- Chinese and Hong Kong stocks continued to trade higher and set new 2025 highs during July. Gains are driven by improved US-China trade relations, strong second-quarter GDP, government initiatives to combat involution, and rising foreign investor interest. The solid southbound inflows also remained a crucial support to the performance of the Hong Kong stock market.
- All sectors rose over the month. Healthcare produced the best returns, rising by almost 20% in US dollar terms. Energy, technology, consumer discretionary and industrials were also strong and outperformed. Basic materials was the weakest sector, gaining only slightly.
- The fund produced a positive return but slightly underperformed the benchmark over the period.

Drivers of fund performance

- At the sector level, sector allocation was the key driver of returns, with the overweight exposure to consumer discretionary contributing strongly. However, stock selection, most notably the fund's consumer discretionary stocks, detracted from performance.
- At the market level, selection had a positive effect. However, this was offset by the negative effect from the off-benchmark position in China.
- The best-performing holdings in the fund were the overweight positions in **Crystal International** and **Tencent**, and the underweight to **Hong Kong Exchanges & Clearing**.
- The weakest returns came from **Xiaomi**, **H World Group** and **New Oriental Education & Technology**.

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 decline of the US exceptionalism trade and the corresponding diversification towards non-US assets may continue to sustain interest in Chinese equities. On the trade side, although the negotiation process has been extended, we expect the US and China to reach a trade agreement within the next few months. China's easing of rare earth export restrictions and the US approval of Nvidia's H20 chip sales indicate progress. Lower and/or finalised

*Schroder International Selection Fund is referred to as Schroder ISF throughout tariffs could improve market sentiment and reduce uncertainty.

- Locally, the market anticipates additional pro-growth policies from the authorities to stimulate the subdued macroeconomic environment. In our view, large-scale fiscal stimulus is unlikely, as past measures such as trade-in subsidies have only front-loaded demand. Current policy will prioritise reducing overcapacity and limiting competition to foster a better demand/supply dynamic across key industries.
- In the near term, China's market performance may remain concentrated within select thematic sectors. However, a broadening in gains is conceivable should economic recovery become more apparent in the second half of 2025, with the aid of further demand stimulus and more effective regulatory frameworks and supply-side discipline.
- In Hong Kong, the financial sector will likely benefit from record IPO and equity fund raising, while we expect a lower HIBOR (Hong Kong Inter-bank Offered Rate) for an extended period will boost homebuying sentiment and investment 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.

Important Information

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

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