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Schroder ISF* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: October 2025

Performance overview

- Hong Kong and Chinese equities had a weak start to October amid renewed China-US trade tensions. However, they strengthened later in the month as the 15th Five-Year Plan boosted confidence, and the Trump-Xi meeting in South Korea subsequently eased tariff concerns.
- In terms of sector performance, the weakest returns came from healthcare, followed by energy and consumer staples. The low-beta telecommunications and utilities sectors produced the best, albeit low single-digit, returns over the month.
- The fund produced a negative return and underperformed the benchmark over the period.

Drivers of fund performance

- At the sector level, allocation weighed most heavily on returns, especially the overweight to consumer discretionary. Stock selection was marginally positive, with consumer discretionary the greatest contributor, offsetting weak performance in telecommunications.
- At the market level, selection in Hong Kong equities contributed positively. However, the large exposure to off-benchmark Chinese equities weighed on returns.
- The best-performing holdings in the fund were the off-benchmark position in **Mandarin Oriental International**, the overweight position in **Dah Sing Banking Group** and the underweight to **Hong Kong Exchanges & Clearing**.
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- The weakest returns came from the off-benchmark holdings in **Xiaomi Corp** and **Alibaba**, and the zero weighting in Hang Seng Bank.

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 rally in the Chinese market up until October was fuelled by a more supportive environment for private enterprise and breakthroughs in innovation. Additionally, external factors such as the weaker US dollar and increased asset diversification away from the US have boosted Hong Kong and Chinese equities.

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

- The strong equity market performance year to date stands in sharp contrast to the underlying economic fundamentals, which have continued to deteriorate, as evidenced by a weak housing market, slow retail sales and persistent deflationary pressures. This disparity highlights why gains are concentrated in just a few thematic sectors.
- In the short term, external factors remain favourable – further rate cuts and continued reallocation from US assets are supporting flows into China. The Trump-Xi meeting in Seoul resulted in a 10% reduction in tariffs and an extension of the truce, easing concerns about trade frictions. While ongoing US-China talks could spark market volatility, recent developments indicate that a full-scale decoupling remains improbable.
- Domestically, the 15th Five-Year Plan aims for high-quality growth through self-reliance and technological progress. However, prompt economic recovery measures are needed to expand gains beyond a few sectors. Investors should remain vigilant, as the interplay between these factors will be crucial in shaping market dynamics and opportunities in the next few months.
- In Hong Kong, the financial sector continues to benefit from record levels of initial public offerings and equity fundraising, while lower rates are expected to support homebuying and investment demand.
- Technically, market valuations remain reasonable after the rally, as previous levels were notably depressed. Importantly, there are now signs of stabilisation and a modest upward revision in corporate earnings. Should these trends persist, they could underpin more sustainable growth for the Chinese markets.

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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