

## Schroder ISF\* Hong Kong Equity

Fund Manager: Toby Hudson | Fund update: April 2025

## Performance overview

- The Hong Kong market weakened in April, although it performed better than China. Like the mainland market, it experienced a turbulent month due to larger-than-expected US tariff hikes and the consequent retaliation from the Chinese government. This led to a sharp correction. However, the market had partially recovered by the end of the month as US-China tensions eased. A 90-day reprieve on the US reciprocal tariffs (except for China) also supported sentiment.
- Most sectors fell, with the weakest returns coming in technology and basic materials.
- Utilities was the outstanding performer, up by over 6% in local-currency terms. Telecommunications and real estate also eked out mildly positive returns.
- The fund produced a negative return and underperformed the benchmark over the period.

## Drivers of fund performance

- At the sector level, allocation had a marked negative effect, largely due to the overweighting of consumer discretionary. The overweight to technology and the zero weighting in utilities also weighed on performance. While stock selection was positive in technology, this was offset by weak returns in industrials and consumer discretionary.
- At the market level, selection in Hong Kong was weak and the exposure to off-benchmark China-listed stocks also had a negative effect.
- The best-performing positions were the zero weightings in both Lenovo Group and AAC Technologies, and the position in **Swire Properties**.
- The weakest returns came from the holdings in **Crystal International**, **Samsonite Group** and **Meituan**.

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 trade conflict between China and the US is ongoing, with complex and prolonged negotiations expected. However, markets seem to believe that the worst-case scenario has passed, and future talks will likely reduce tariffs to more manageable levels. Aside from a possible trade deal, a weaker economy and more relaxed monetary policy in the US would also probably support the performance of China's market.
- Domestically, a greater policy response from the Chinese authorities is expected to cushion the tariff shocks. We could see the government speed up the implementation of the policies that have already been announced. However, the July Politburo meeting might be a more reasonable time for the authorities to formulate a larger and

- more effective support package.
- Overall sentiment towards China has improved year to date due to AI advancements and the government's support for the private sector. Continued demand for AI proxies is expected to provide downside support to the market. However, it faces challenges owing to deflationary trends in the broader economy and tariff

pressures. The effectiveness of policy stimulus in stabilising the housing market and driving consumption will determine if the market's recovery can broaden out in the latter half of the year.

## 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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