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Schroder ISF* Asian Convertible Bond

Fund Managers: Dorian Carrell, Dominique Braeuninger | Fund update: March 2025

Performance overview

- The global financial landscape was disrupted by rising geopolitical tensions over the month, with the US government imposing a 25% tariff on imports from Canada and Mexico, while increasing tariffs on Chinese goods from 10% to 20%. This move prompted swift retaliatory actions from the affected countries, leading to considerable market volatility.
- US equities fell further from their lofty heights, fuelled by investor concerns about the potential for stagflation—a scenario characterised by rising inflation and slowing economic growth. European equities couldn't escape the turmoil, sliding almost 4%, although still comfortably ahead of the US year-to-date. Emerging market equities were the bright spot, with gains driven by China where renewed policy support from Beijing helped restore investor confidence.
- Turning to credit, corporates in both the US and Europe were broadly weaker, with the tailwind from falling government bond yield offset by spread widening across both investment grade and high yield.

Drivers of fund performance

- The fund underperformed its benchmark in March.
- On a sectoral level, security selection in materials, communications and financials all added to returns over the period. However, security selection in IT detracted from returns.
- Turning to single names, our underweight position in **China Hongqiao Group**, as well as overweights in Vietnamese names, **Vinpearl** and **Vingroup** were again the standout performers. On the other side of the spectrum, our underweight in **VNet Group and Li Auto** detracted from returns.

Portfolio activity

- The strategy seeks to maintain good upside exposure to Asian stocks, balanced by "bondfloor" protection. As a result, we maintain an equity exposure positioning above benchmark.
- We increased defensive exposure in the logistics market leader, **ZTO,** while adding to **Baidu,** the Chinese internet services and AI company.
- Meanwhile we took profits in **Alibaba** and **Xiaomi** and trimmed **Gigabyte** and **Lenovo**.

Outlook

- Convertibles have held up relative to equities and bonds year to date, reversing a challenging 2024.
- We believe clear catalysts exist for Asian markets, where convertible valuations mean investors are paid to wait for an eventual recovery. For example, a declining USD could dramatically shift the landscape, encouraging a reversal of capital flows back to Asian markets. This is particularly the case for Asian exporters who have invested massive amounts of export revenue in USD assets.
- With Chinese stocks typically trading at large discounts to their US peers after several years of underperformance, and international investors' exposure to China at generally low levels, the China-technology theme has provided a powerful spark for a re-rating.
- The key issue for longer-term returns in China is whether any upcoming fiscal stimulus or other policy announcements are sufficient to really accelerate underlying economic growth and thereby improve the earnings outlook. An improvement in domestic confidence – for both households and the corporate sector – is key to the growth outlook, while domestic policy support remains critical given the tough external backdrop. Market performance is therefore likely to be very policy dependent as we move through 2025.
- Korean and Taiwanese markets remain hostage to the performance of technology stocks, which dominate their indices. While AI-related revenue momentum looks very strong for many Asian technology stocks, the longer-term

*Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

growth picture is less clear. Talk of higher US tariffs on Asian imports has further complicated the picture for Korea and Taiwan in the near term, given their large trade surpluses with the US and the heavy reliance of both economies on their export sector. Despite these near-term uncertainties, we remain comfortable with our positions in industry leaders in the technology sector.

- In India, valuations have been looking stretched for some time, particularly for the mid-sized and smaller companies favoured by domestic investors. Recent earnings and macroeconomic data have shown signs of slower growth, and this has provided an excuse for profit-taking. We continue to see attractive longer term growth opportunities in India across many sectors, so are watching closely for share prices to reach attractive entry points.
- We continue to hold to our long-term conviction that convertible bonds offer excellent access to exploit equity upside participation in Asian stocks, with a safety net attached.

Calendar year performance (%)

Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and investors may not get the amount originally invested. Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark. Please see the respective fund factsheets for the performance of other share classes.

Year	Fund (A Acc)	Fund (I Acc)	BM
2024	8.8%	10.5%	12.3%
2023	7.8%	9.5%	10.7%
2022	-13.3%	-12.0%	-9.0%
2021	0.5%	2.1%	-0.1%
2020	18.1%	19.9%	17.4%
2019	9..1%	10.8%	9.8%
2018	-5.65%	-4.16%	-2.30%
2017	9.29%	10.98%	7.93%
2016	0.63%	2.24%	3.12%
2015	6.22%	7.96%	6.76%

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), USD, as at 30/12/2024. The fund's performance should be assessed against its target benchmark being to exceed the FTSE Asia ex Japan Hedged Convertible Bond Index (USD). The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the target benchmark.

Risk considerations

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

Derivatives risk: Derivatives may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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.

Interest rate risk: The fund may lose value as a direct result of interest rate changes.

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.

Capital risk / distribution policy: As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.

Credit risk: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

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.

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.

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

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