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Schroder ISF* Asian Convertible Bond

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

Performance overview

- Global markets advanced in May, supported by easing trade tensions following a temporary US-China tariff truce. However, attention quickly shifted to US fiscal sustainability, prompting a rise in global sovereign yields and volatility across asset classes.
- Equities recovered broadly, with US, Eurozone, UK and Japanese shares posting gains. US technology and consumer sectors outperformed, while healthcare lagged on pricing reforms. Emerging markets rose on improved risk sentiment, though they trailed developed peers.
- Fixed income markets were volatile, as rising concerns over US debt pushed Treasury and other high-deficit market yields higher. European core government bonds saw only modest yield increases. Credit spreads tightened in the US, with high yield outperforming on positive risk appetite, while commodities gained modestly and gold prices declined.

Drivers of fund performance

- The fund outperformed its benchmark in May.
- In terms of sector performance, overweight positions in consumer discretionary, real estate, and communication services contributed meaningfully to active performance, while underweight allocations in materials, energy, and industrials detracted from returns.
- Turning to security selection, allocations to **Vinpearl JSC**, **Vingroup JSC**, and **Sea Ltd** delivered robust active performance. Conversely, overweight positions in **China Hongqiao Group** and **SK Hynix Inc** were the largest detractors from returns.

Portfolio activity

- In line with our preference to hold high conviction positions, we made incremental shifts toward consumer names. This included adding to longer dated optionality in **Trip.com** and **China Hongqiao** whilst selling out of Macau gambling name, **Wynn Macau**.
- We also reduced exposure to the hotel group **Huazhu** reflecting concerns over the sustainability of earnings. We added to a very attractive structure and with exposure to Chinese sports segment, which we believe remains overlooked and undervalued, Chinese sports segment.

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.

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

- 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 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 (%)

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.

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.

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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