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# Schroder ISF* Asian Convertible Bond

**Fund Managers: Dorian Carrell, Dominique Braeuninger | Fund update: March 2026**

## Market review

- **Crude remained elevated above $100 for the majority of the month**, as Russian oil revenues doubled from January levels despite ~40% disruption to export capacity from Ukraine
- **The Trump Xi Summit was postponed to mid-May amid escalating tensions in Iran**, with the outcome likely to shape near-term US–China relations and market sentiment
- An initial redemption cap by a major private credit firm triggered a **self-reinforcing cycle of outflow requests across the industry**, with spreads for some names widening to ~300bps, nearly double late-2025 level. This dislocation is likely to further support strong convertible issuance going forward
- **Energy self-sufficiency cushioned China**, while USD flight-to-safety and currency pressure amplified declines, with **tech-heavy Korea and Taiwan among the weakest performers over the month**

## Drivers of fund performance

- **Despite lagging its benchmark over the month, the fund continues to outperform the MSCI AC Asia ex Japan Index**, supported by disciplined positioning and stock selection, underpinned by our rigorous equity and credit screening
- **Energy exporters such as Malaysia and Indonesia proved more resilient, while regional markets pulled back amid geopolitical tensions and elevated oil prices, with tech-heavy sectors leading declines**, as USD strength also weighed on and pressured Asian currencies
- **In March, our largest overweight remained in technology, reflecting our positioning to benefit from the ongoing AI buildout**, particularly in semiconductors, where **the structural shift from one-off costs to recurring expenditure is reinforcing demand for "picks and shovels" and supporting asymmetry**. This is set against a backdrop of oil futures pricing a gradual de-escalation of the conflict, helping to anchor broader macro expectations
- **Performance was negative for March**, as the evolving conflict created near-term headwinds and sell-off pressure across cyclicals, **though this subsequently began to recover into early April**
- **At the security level, SK Hynix was the top contributor to active returns, with Zijin Mining also notably contributing as we were underweight the benchmark**, offsetting near-term sell-off pressures driven by broader market beta. In contrast, **Samsung detracted** from overall active performance
- **Information Technology was the largest detractor at the sector level in March**, as the evolving conflict drove a sell-off across cyclicals in Asia, **while health care and consumer staples were relatively flat** given their more defensive characteristics

## Portfolio activity

- **We continued to increase our exposure to HD Korea Shipbuilding & Offshore Engineering (Hyundai Heavy Industries) through a balanced new issue**, against a backdrop of increased US spending and tighter tanker and vessel availability, reinforcing demand for newbuild capacity to support energy security and evolving global trade flows
- **We added selectively across defence, technology, and industrial-related exposures, where structural tailwinds remain supportive**, particularly against a backdrop of heightened geopolitical tensions and disruption to global shipping routes and energy markets. At the same time, we took profits in select positions, including within travel and parts of technology, recycling capital into opportunities with more attractive asymmetric payoff prospects given prevailing valuations

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

- **We partially reduced our position in MakeMyTrip during March, taking profits following a modest rebound in the share price**. While we continue to see long-term structural growth in Indian travel, near-term demand trends appear more mixed, with some moderation in travel flows and emerging pricing pressures in parts of the market

## Outlook – What are we now?

**While the suspension of oil exports broadly affects Asia, the country split in Asian convertibles remains favourable.**

**The recent escalation in rhetoric from the US, followed by the announcement of a two-week ceasefire, provided some near-term relief to markets**, reinforcing our base case of a gradual de-escalation given the economic and political costs to all parties involved. Compromises will clearly need to be made along the way, and the path ahead is unlikely to remain even.

**While regional tensions may persist, particularly involving Israel and Lebanon, the broader trajectory is starting to point towards containment**, with mediation efforts gradually gaining traction among key regional and international actors.

**Ultimately, lost LNG and oil supply will take time to rebuild**, leaving a more unstable and uncertain operating environment for energy-sensitive assets. These frictions remain inherently inflationary, suggesting rates are likely to remain higher, at a time when many economies are already running relaxed monetary policy and elevated deficits.

**USD flight-to-safety strength and higher-for-longer oil prices pressured Asian currencies, particularly the Thai baht, Korean won and Indian rupee, which could lead to inflationary pressures if sustained. Meanwhile, the postponement of the Trump–Xi summit to mid-May reinforces the uneven path toward de-escalation**, highlighting a growing asymmetry as US attention turns to the Middle East, while China enters from a position of relative resilience, supported by substantial oil reserves, coal capacity and expanding solar infrastructure**.**

In the US, pressure is becoming increasingly visible. Elevated input costs are weighing not only on margins but on consumers, adding a political dimension, with recent polling suggesting **Trump's approval rating has fallen to a new low of 36%**. The midterm outlook also remains finely balanced, and a shift in control would materially impact the administration's ability to set policy and maintain party discipline. At the same time, ongoing legal scrutiny around Chair Powell may well delay any leadership transition, potentially keeping policy on hold for longer than markets expect.

In this environment, convertibles offer a flexible way to capture upside while providing downside protection as volatility and dispersion rise. With consumption pressures persisting across parts of Asia, our positioning remains resilient, supported by a reduction in equity sensitivity and a higher bond floor.

## Calendar year performance (%)

| Year | Fund (C Acc) | Fund (A Acc) | Fund (I Acc) | Benchmark |
|---|---|---|---|---|
| 2025 | 36.2% | 35.4% | 37.4% | 30.4% |
| 2024 | 9.5% | 8.8% | 10.5% | 12.3% |
| 2023 | 8.5% | 7.8% | 9.5% | 10.7% |
| 2022 | -12.8% | -13.3% | -12.0% | -9.0% |
| 2021 | 1.0% | 0.5% | 2.1% | -0.1% |
| 2020 | 18.7% | 18.1% | 19.9% | 17.4% |
| 2019 | 9.7% | 9.1% | 10.8% | 9.8% |
| 2018 | -5.1% | -5.7% | -4.2% | -2.3% |
| 2017 | 9.9% | 9.3% | 11.0% | 7.9% |
| 2016 | 1.2% | 0.6% | 2.2% | 3.1% |

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), USD, as at 30 December 2025. 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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