

Schroder ISF* Asian Convertible Bond Monthly Newsletter

Covering December 2022

Market Overview

Performance %**		Dec. 2022	1 year	3 years (p.a.)	5 years (p.a.)
USD	I class	2.0%	-12.0%	2.5%	2.7%
	A class	1.8%	-13.3%	0.9%	1.1%
	BM	1.7%	-9.0%	2.2%	2.8%
EUR	I class	1.6%	-13.9%	0.9%	0.5%
	A class	1.5%	-15.3%	-0.7%	-1.0%
	BM	1.4%	-10.7%	1.0%	0.9%
CHF	C class	1.4%	-14.9%	-0.4%	-0.7%
	A class	1.3%	-15.5%	-0.9%	-1.3%
	BM	1.3%	-11.1%	0.7%	0.7%

**Euro hedged, CHF hedged and USD A and I share classes shown net of fees, bid to bid. Source: Bloomberg, Schroders as at 31 December 2022. Portfolio data sourced from Schroders (unaudited). Benchmark: Refinitiv Asia ex Japan Convertible Bond Index (hedged for USD/EUR/CHF).

Historical Performance USD hedged

(%)**	Fund (A Acc)	Fund (I Acc)	Benchmark
2022	-13.31%	-11.96%	-8.95%
2021	0.49%	2.11%	-0.07%
2020	18.1%	19.94%	17.43%
2019	9.08%	10.81%	9.82%
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%
2014	1.48%	3.11%	2.92%
2013	3.90%	5.54%	4.41%

** A and I share classes shown net of fees, bid to bid, USD returns. Source: Bloomberg, Schroders as at 31 December 2022. Benchmark: Refinitiv Asia ex Japan Convertible Bond Index (USD hedged).

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.

Please see the respective fund factsheets for the performance of other share classes.

Global stock markets ended a miserable year on yet another bleak note.

The Bank of Japan joined the chorus of more hawkish central banks widening their curve control and allowing higher rates for longer dated government bonds.

In the US, the S&P 500 shed -5.9%. The Dow Jones stated a loss of -4.1%. The tech and growth heavy Nasdaq suffered a loss of -8.7% in December.

European bourses also showed downside moves, albeit on a generally lower scale. The overall Eurostoxx stated a loss of -4% for December.

Stock markets in Asia showed a very heterogeneous picture with gains in Hong Kong (Hang Seng +6.4%) and China (CSI +0.6%) driven by China's Covid 19 opening policy, which in hindsight seems rather dangerous.

Elsewhere in Asia, the KOSPI fell -9.5%, Taiwan's bourse closed the month on a loss of -4.8% while Singapore's Strait Times index shed -1.1%.

The global MSCI equity index finished the month of December with a loss of -3.9%. The S&P Asia 50 however, could end the year on a positive note with a plus of 1.4%. Asian convertible bonds did even better and stated a gain of 1.7% for the Refinitiv Asia ex Japan convertible index in USD hedged terms.

Our fund slightly outperformed its benchmark.

Portfolio Overview

The fund continues to focus on the more “balanced” names in the universe (good sensitivity to rising stock prices balanced by high bond protection) and accordingly carries more equity risk than the increasingly defensive benchmark. This positioning reflects a strategic tilt of the fund to maximise risk/return in the long run.

In December the fund was able to benefit from this risk positioning. Our overweight holdings in **Weigao (Sure First)**, **Postal Savings (Poseidon)**, and **Anta Sports (Anllian)** contributed strongly to relative performance. We suffered against benchmark with our zero weight in **Microport**.

China remains the dominant country in our fund structure, and we remain overweight in weight, as well as in risk terms. We have positioned the fund – as much as the universe allows – to benefit from the re-opening trade.

The recent market moves have shifted the risk level of the market upward again. Still, our benchmark reflects more a bond-like than a balanced convertible bond profile. Our fund continues to focus on balance names.

At the sector level, we remain overweight most sectors, but have taken small underweight positions in consumer staples and materials in risk-adjusted terms.

Towards the end of the year, the primary market for convertible bonds developed its usual seasonality with only a few new convertibles coming to the market. There were no Asian convert issues this month.

The year 2022 marks a record low in terms of new issuance volume globally - but especially for Asian convertible bonds. We only saw USD 2.7bn of new paper coming to the market. In comparison, the average new issue volume for Asian convertible bonds had been USD 17.2bn annually since the global financial crisis.

With hardly any supply of new convertibles, it is striking that Asia remains the cheapest region for convertibles. We estimate that Asian converts trade 1.5% to 2% below their fair value.

Outlook and Strategy

At the time of writing our market commentary in early January, we see the negative results of the sudden and uncontrolled Covid 19 opening of China. Having relied on strict lockdowns for the last few years, China jumped to a fully open and unrestricted Covid 19 policy. This now takes its fatal toll on the population with little access to vaccines, medicine, or hospital beds.

Over the last few days, however, we have seen more activity in public transport and China seems to have survived the high rates of infection rates – though with terrible suffering.

The road to normality and recovery will be painful. But for the economy and for markets, this is good news looking forward. We had emphasized for long that China was on a different Covid 19 policy to the rest of the world with significant negative effects for the economy – for the Chinese and for the global economy. In the medium to long run, lifting Covid 19 restrictions, getting people back to work and to consume will be positive.

The other significant themes in China continue to be government intervention in markets and a centrally led economy.

In the past, we have seen significant interference in information technology, gaming, private education and

delivery services. On the other hand, a centrally organised country could be positive for the down-and-out real estate market.

The government has recently become more supportive for the housing market. Several of the housing constructing companies have been deemed too big to fail, signaling effective state support for the sector. However, it will take some time for the sector to recover and regain investors’ trust.

In his annual address President Xi stated that “China’s economy has strong resilience, great potential and vitality”. It looks as if China’s leaders have taken up the old US slogan: it’s the economy. There are first signs of strengthening consumer confidence and domestic demand.

China’s economy has been export driven in the past years. We think that the future could be challenging, especially if European and US demand ebbs off. This brings us back to the point that China’s success is very much correlated to global growth, and that China will also suffer from a likely global recession.

Since the period of the People’s Congress, the PBoC has not taken further decisions on interest rates. We believe

that there is more room for easing and lowering rates and think that further rates cuts are still on the agenda.

Our bottom line is that the long-term effect of moving China away from private markets and backwards to socialism will be very negative.

On a final positive note, we hold to our long-term conviction that convertible bonds offer great access to exploit equity upside participation in Asian stocks, with a safety net attached.

Risk Considerations

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

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

Currency risk/hedged share class: The 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.

Emerging Markets & Frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets. High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

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

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.

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.

IBOR: 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.

Derivatives risk: 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

Fund Data*** 31 December 2022

Team	
Portfolio managers	Dr. Peter Reinmuth Chris Richards, CFA

Size & Holdings	
Fund size in base currency (USDm)	91
Number of issues	43

Portfolio Statistics****	
Equity Exposure	34.65%
Delta	41.30%
Bond Floor	86.52%
Average Rating	BB+
Credit Spread (bp)	502
Running Yield	1.08%
Effective Duration (years)	1.14

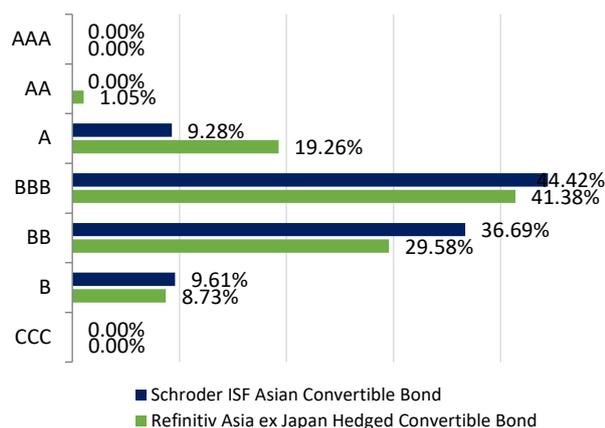
***Source: Schroders 31 December 2022. Please note that the sector and country split follows the underlying equity rather than the issuer.

****Average credit quality is based on official ratings where available and implied ratings. Yield is estimated on a running yield basis.

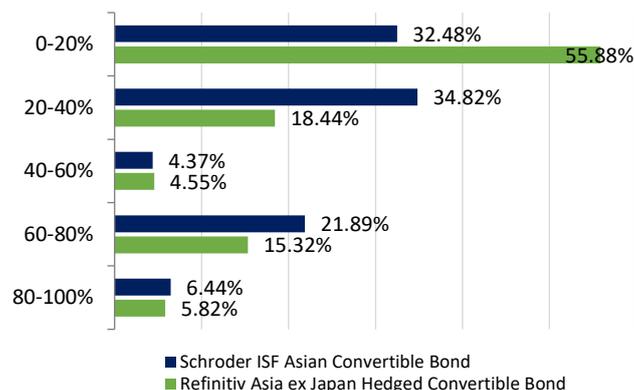
Country Allocation	Portfolio	Index
China	71.04%	57.75%
Hong Kong	4.86%	10.31%
India	6.44%	5.82%
Japan	0.00%	0.00%
Malaysia	0.00%	0.00%
New Zealand	0.76%	0.00%
Philippines	0.00%	0.00%
Singapore	4.91%	4.36%
South Korea	0.00%	5.09%
Taiwan	6.84%	14.88%
Thailand	0.00%	0.00%
Vietnam	3.84%	1.81%
Cash	1.32%	0.00%

Sector Allocation	Portfolio	Index
Communication Services	15.46%	8.74%
Consumer Discretionary	24.92%	17.62%
Consumer Staples	3.90%	3.19%
Energy	0.00%	0.00%
Financials	9.38%	7.01%
Health Care	4.18%	12.40%
Industrials	15.21%	12.35%
Information Technology	12.70%	20.15%
Materials	5.55%	11.23%
Real Estate	7.38%	7.32%
Utilities	0.00%	0.00%
Cash	1.32%	0.00%

Credit Rating



Equity Sensitivity



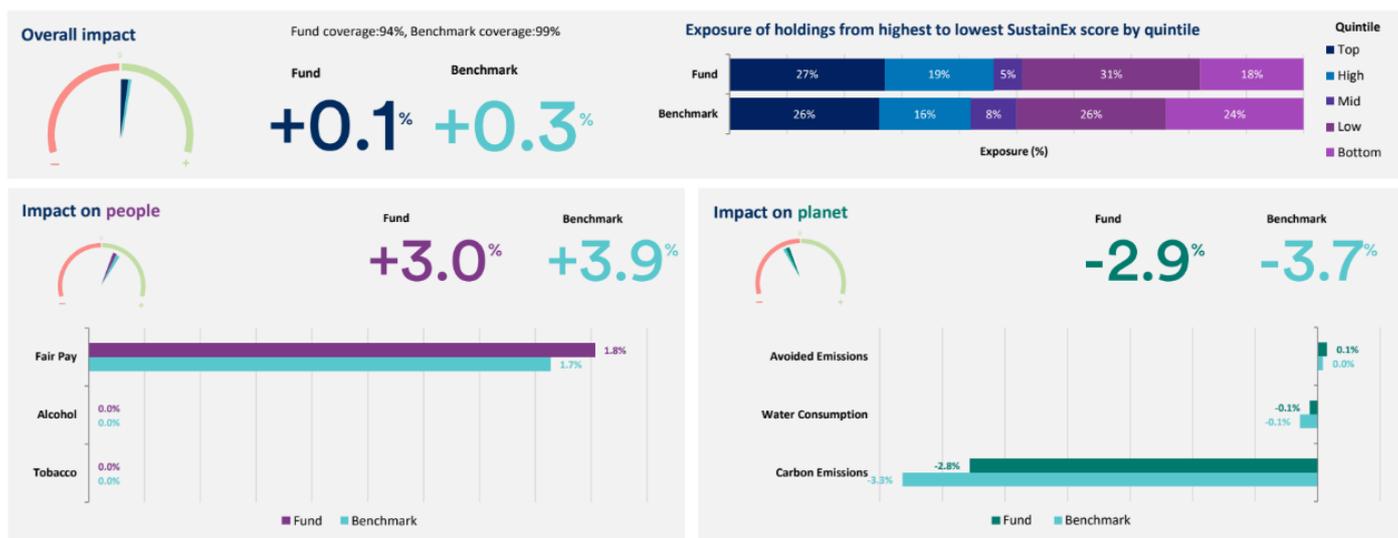
Source: Schroders as at 31 December 2022.

Top Ten Issues

Holdings	Portfolio	Sector
1 ANTA SPORTS PRODUCTS LTD RegS 0.00% 05 Feb 2025	7.06%	Consumer Discretionary
2 BHARTI AIRTEL LTD RegS 1.5% 17 Feb 2025	6.44%	Communication
3 KINGSOFT CORP LTD RegS 0.62% 29 Apr 2025	5.96%	Communication
4 MEITUAN RegS 0.00% 27 Apr 2028	5.17%	Consumer Discretionary
5 ZHONGSHENG GROUP HOLDINGS LTD RegS 0.00% 21 May 2025	4.89%	Consumer Discretionary
6 CATHAY PACIFIC FINANCE III LTD RegS 2.75% 05 Feb 2026	4.86%	Industrials
7 SINGAPORE AIRLINES LTD RegS 1.63% 03 Dec 2025	3.84%	Industrials
8 POSTAL SAVINGS BANK OF CHINA CO LT RegS 0.00% 01 Feb 2025	3.65%	Financials
9 CIMC ENRIC HOLDINGS LTD RegS 0.00% 30 Nov 2026	3.61%	Industrials
10 LENOVO GROUP LTD RegS 2.5% 26 Aug 2029	3.31%	Info Tech

Source: Schroders as at 31 December 2022.

Schroder ISF Asian Convertible Bond as at 30 November 2022



Source: Schroders as at 30 November 2022. The Schroders Impact score is based on Schroders' proprietary tool, SustainEx. Overall impact is an indication of the fund's impact compared to its benchmark. All holdings exclude cash and currency holdings. Impact on People and Impact on Planet indicate the fund's underlying benefits and harms compared to its benchmark. Metrics shown are a sample of the total underlying metrics. See definitions slide for more details. Benchmark data Refinitiv Asia ex Japan (USD) Next Day.

Important information

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the "Company"). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Luxembourg) S.A. An investment in the Company entails risks, which are fully described in the prospectus.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested. Schroders has expressed its own views and opinions in this document and these may change. This document is issued by Schroder Investment Management Ltd., 31, Gresham Street, EC2V 7QA, who is authorised and regulated by the Financial Conduct Authority. For your security, communications may be taped or monitored. Third party data is owned or licensed by the data provider and may not be reproduced or extracted and used for any other purpose without the data provider's consent. Third party data is provided without any warranties of any kind. The data provider and issuer of the document shall have no liability in connection with the third party data. The Prospectus and/or www.schroders.com contains additional disclaimers which apply to the third party data.