

Schroder ISF* Strategic Credit Quarterly Fund Update

Covering Fourth Quarter 2019

European High Yield Market Review

Non-investment grade bond prices rose by 0.9% in the fourth quarter, according to the ICE BAML Index of BB-B rated securities. The total return for this index was +1.9% in the quarter, including interest income. The best performing sector was healthcare, where we hold names such as Teva Pharmaceutical, Nidda Healthcare, Bausch Health Cos, Mylan Inc, Voyage Care and IDH Dental. The return on single-Bs beat BB's, as investors took on more risk. The graph below shows the ratio between BB and B credit spreads (orange), which contracted sharply in December 2019. Some of the single-B laggards in consumer and auto sectors stirred into life, e.g. Lowen Play, Antolin, Iceland, Jaguar Landrover and Pizza Express.

This was a classic Q4 risk-on rally, powered by (a) stability in European and US economic data, (b) improved prospects for a US-China trade deal and (c) a decisive win for the incumbent Conservative party in the UK general election and of course (d) dovish central banks across the world.

Performance

Schroder ISF Strategic Credit generated a total return of +2.21% (C accumulation shares) in Q4. These positive returns were led by our holdings in the services sector, where we own securities issued by Merlin Entertainments, Atalian, Selecta, Eurofins, Algeco, NH Hotels and Ladbrokes. Year to date, the strategy (C accumulation shares) has returned 8.77%.

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

Source: Schroders, Bloomberg as at 31 December 2019 (NAV to NAV, bid to bid, net of ongoing charges, GBP).

Portfolio Activity

We maintained spread duration at 2.6 in Q4 and marginally increased non-investment grade exposure from 55% to 57% (using the average of three agencies), as several attractive opportunities presented themselves. Our five largest new purchases are explained below:

Stada €3.5% 9/24 (B2/B+): German pharmaceuticals co, with emphasis on generics and over the counter consumer drugs. We met the management team in November and purchased senior secured debt in a tap issue.

Medical Properties Trust £2.55% 12/23 (Ba1/BBB-): US-listed Real Estate Investment Trust focussed on owning hospital facilities. The group, which owns 357 properties across 7 countries, recently reported the ratio of debt to capital at below 50%.

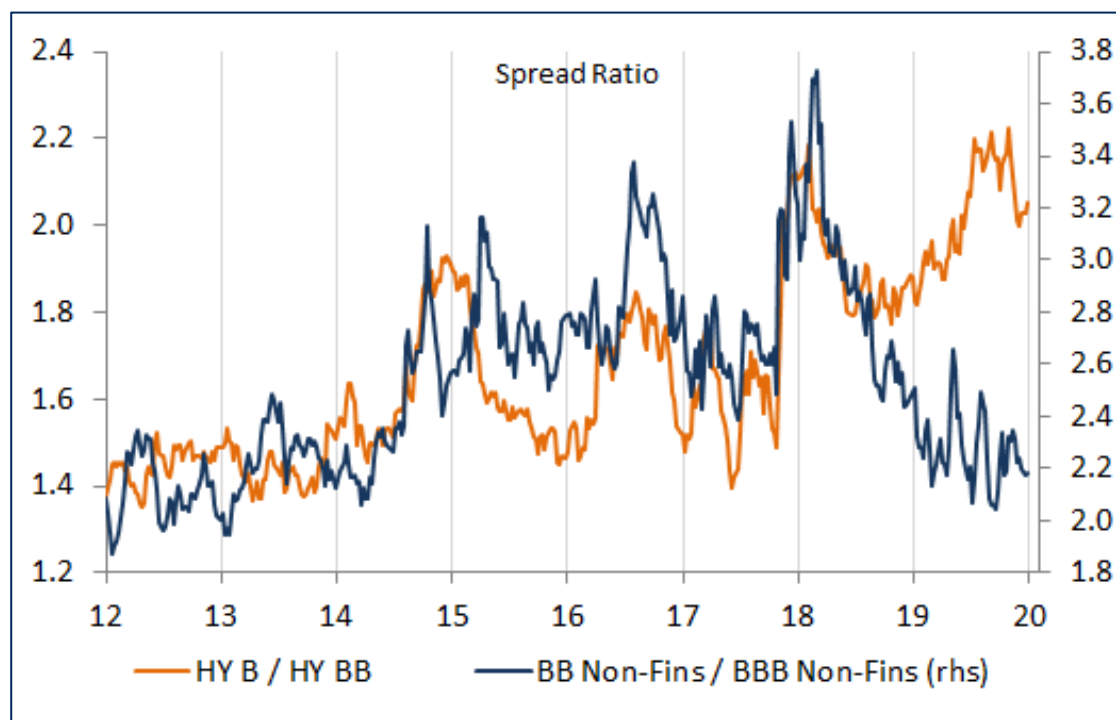
Wepa FRN €+2.9% 11/26 (B1/BB-): German manufacturer of toilet paper, kitchen towels and other tissue products, mainly for European supermarkets. With 8% market share in the EU, the company ranks third after Essity and Sofidel; It is privately owned by the Krengel family, which has a focus on long term capital investment.

Polygon €4% 2/23 (B1/BB-): Fire and water damage restoration, with operations in Scandinavia, Germany and UK. We participated in the €40m tap at a yield of Euro swaps plus 3.8%, with strong covenants including dividend prevention clauses.

ZF Friedrichshafen €2% 2/26 (BBB-/Baa3): Diversified auto components in Germany and US. Group shareholders include the Zeppelin Foundation, administered by the City of Friedrichshafen which holds some 94% of shares.

Market Outlook

There is not a great deal of value to be found in the secondary market, where supply conditions are tight, average prices are at an 18 month high and credit spreads are at their lowest since May 2018. We are broadly neutral on the asset class as a whole, seeing opportunity in the single B segment, as economic data stabilises. We expect an increase in Q1 high yield supply - partly to finance announced acquisitions, such as Enterprise Inns and partly to refinance existing high coupon bonds.



Source: Schroders, Bloomberg, ML, as at 31 December 2019.

Peter Harvey, 3 January 2020

Historical Performance

Performance	2019	2018	2017	2016	2015
Schroder ISF Strategic Credit (C Acc)	8.8	-1.8	4.3	5.9	3.4
LIBOR 3-month GBP	0.8	0.6	0.2	0.4	0.5

Source: Schroders, Bloomberg as at 31/12/2019. C Accumulation shares, NAV to NAV, bid to bid, net of ongoing charges, GBP. Unaudited. The fund is not managed with reference to a benchmark but its performance may be measured against one or more.

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.

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

In order to access restricted markets, the fund may invest in structured products. Should the counterparty default, the value of these structured products may be nil.

Non-investment grade securities will generally pay higher yields than more highly rated securities but will be subject to greater market, credit and default risk.

A security issuer may not be able to meet its obligations to make timely payments of interest and principal. This will affect the credit rating of those securities.

Investment in bonds and other debt instruments including related derivatives is subject to interest rate risk. The value of the fund may go down if interest rate rise and vice versa.

It may be difficult to sell quickly positions of one or more companies to meet redemption requests upon demand in extreme market conditions.

The fund will be subject to the respective market movements of a limited number of sectors and/or countries of the investment universe.

The fund may invest in other regions than the primary universe of the fund resulting in an additional currency and interest rate risk.

The fund may be leveraged, which may increase its volatility. The fund enters into financial derivative transactions. If the counterparty were to default, the unrealised profit on the transaction and the market exposure may be lost.

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 (Europe) 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.

The views and opinions expressed in this document are those of Peter Harvey and these may change.

Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage.

This document is issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799. For your security, communications may be taped or monitored.