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Schroder ISF* Global High Yield

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Fund update: February 2023

Performance overview

- High-yield bonds posted negative total returns over the month. Spreads tightened during February but yields rose by the most since September as stronger than expected US macro data reignited inflation concerns, led to an increase in the terminal Fed Funds rate and raised interest rate implied volatility, all of which weighed on risk assets.
- Global high yield outperformed both investment grade corporates and emerging markets debt in excess return terms relative to Treasuries.
- The fund posted negative returns and underperformed the benchmark over the month.

Drivers of fund performance / Portfolio activity

- The primary driver of underperformance over the month was security selection, while asset allocation was muted.
- Security selection within industrials detracted the most, led by communications and energy. Picks within REITs and insurance were also negative.
- Within asset allocation, an overweight to other financials contributed slightly but was offset by an overweight to banking.
- An allocation to cash and triple-Bs detracted given the relative outperformance of high yield bonds.
- Regionally, the underweight to pan-European high yield detracted given the strong outperformance of pan-European high yield.
- The fund's exposure to communications and capital goods was reduced while adding modestly to banking through new issues. The fund's largest overweights remain to banking and energy.
- The fund's sustainability metrics remained largely unchanged as well, and the fund's sustainability score as measured by SustainEx remains better than that of the benchmark.

Outlook

- The dispersion in the market is high, leading to attractive security selection opportunities. Moreover, yields are attractive, providing income and a buffer against future volatility.
- We are more defensively positioned and maintain cash levels and an increased investment grade exposure in the fund as technical tailwinds have moderated given the rally at the start of the year.
- Fundamentals continue to be healthy as credit metrics continued to be strong and profit margins have shown resilience.
- On the technical side, rising star upgrades remain a technical tailwind for US high yield bonds.
- Improved convexity profile leaves room for capital appreciation.
- We are overweight banking and energy as we believe banking is attractive and the energy sector remains supported both fundamentally and technically.

Calendar year performance (%)

Year	Fund	Target	Comparator
2022	-11.9	-10.5	-11.7
2021	4.7	5.0	2.4
2020	5.3	6.4	5.3
2019	15.3	14.4	12.4
2018	-4.5	-1.8	-3.7
2017	7.3	7.8	8.1
2016	13.8	15.6	11.0
2015	-1.9	-3.0	-5.0
2014	2.4	3.3	-1.0
2013	7.3	8.2	5.8

Source: Schroders, as at 31 December 2022. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares. Please see factsheet for other share classes. The target benchmark is Bloomberg Barclays Global high Yield ex-CMBS ex-EMG 2% Issuer Capped index and comparator is Morningstar Global High Yield. The fund's investment universe is expected to overlap materially with the components of 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.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

Risk considerations

- **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.
- **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- **Market Risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.
- **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.
- **Interest rate risk:** The fund may lose value as a direct result of interest rate changes.
- **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.
- **High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- **Event risk:** The fund will take significant positions on companies involved in mergers, acquisitions, reorganisations and other corporate events. These may not turn out as expected and may result in losses to the fund.
- **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.
- **Currency risk / hedged shareclass:** 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.
- **Credit risk:** A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **Derivatives risk – efficient portfolio management and investment purposes:** Derivatives may be used to manage the portfolio efficiently. 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.
- **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.
- **Contingent convertible bonds:** The fund may invest in contingent convertible bonds. If the financial strength of the issuer of a contingent convertible bond falls in a prescribed way, the value of the bond may fall significantly and, in the worst case, 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.
- **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.
- **Sustainability risk:** The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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