

Schroder ISF* EURO Credit Conviction

Fund Manager: Patrick Vogel | Fund update: October 2021

Performance overview

- Government bond yields broadly rose as central banks indicated readiness to withdraw monetary policy accommodation as inflationary pressures continued.
- Yield curves flattened as shorter-dated yields were markedly higher.
- Euro BBB investment grade saw negative returns, in line with government bonds. Euro high yield fell.

Drivers of fund performance

- The fund made a negative return in line with the Markit iBoxx BBB Euro Corporate Index.
- The main positives were security selection in telecoms and healthcare, particularly in longer-dated bonds, as yield curves flattened, and an underweight to consumer non-cyclical.
- Security selection in senior banking and also emerging market holdings detracted.

Portfolio activity

- We bought selective new issues and sought to add some higher quality exposure where opportunity arose. We added, off benchmark, to A-rated senior financials, as the sector has underperformed, and should benefit from higher rates and rising merger and acquisition fees.
- Other selective additions included a manufacturer of piping, which has resilient characteristics, and a Russian energy major, which has no government ownership and an attractive yield for its BBB rating. We also added to a rising star – an internet streaming services company upgraded from BB to BBB.
- The fund's largest overweights are senior financials and real estate, mostly in residential and logistics and in stable markets like Germany.
- We maintain significant exposure to transportation, and companies which can benefit from reopening. We keep a large allocation to utilities, though we are underweight.
- We maintain a substantial HY allocation, maintaining index and sector hedges against part of the portfolio.

Outlook/Positioning

- Overall valuations remain at fairly full levels, but well supported by healthy fundamentals. Opportunities remain mostly selective. We are starting to see better relative value in non-cyclical sectors given the strong recovery in cyclicals. We see room for further upgrades potentially driving total returns going forward.
- Economic activity is still robust, but moderating. Companies have seen a strong recovery in earnings supporting balance sheet strength with high yield defaults at notably low levels.
- The key uncertainties remain inflation and the impact of monetary tapering, which can lead to volatility and sudden moves higher in bond yields.
- We tread carefully, focusing on identifying the pockets of value, balancing cyclical and non-cyclical, and areas with further recovery potential.
- We look for long-term themes and shifts, and companies which can benefit. Security selection remains paramount and sustainability ever more important.

Calendar year performance (%)

	A Acc	I Acc	Target**
2020	4.8	6.1	3.0
2019	9.8	11.1	7.7
2018	-3.6	-2.4	-2.0
2017	6.2	7.5	3.4
2016	6.8	8.1	5.4

Source: Schroders as at 31/12/2020 net of fees (where applicable), NAV to NAV (bid to bid), EUR. **Markit iBoxx EUR Corp BBB TR.

- 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 back 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

- **Credit risk:** A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **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.
- **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- **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.
- **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.
- **High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- **ABS and MBS risk:** The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.
- **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.
- **Interest rate risk:** The fund may lose value as a direct result of interest rate changes.
- **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.
- **Investments in other collective investment schemes:** The fund will invest mainly in other collective investment schemes.
- **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.

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, the value of investments 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. 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. **Third Party Data Disclaimer:** 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.