Schroders

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Schroder ISF* EURO Credit Conviction

Fund Manager: Patrick Vogel | Fund update: January 2023

Performance overview

- Credit markets rallied in January. Spreads tightened across the board and government bond yields fell leading to positive total returns.
- The price action was driven by a stabilisation in economic leading indicators and easing inflationary pressures. The relatively mild winter and falling gas prices softened the energy crisis in Europe and the risk of a shutdown in parts of the economy.
- Credit markets outperformed government bonds both in the US and Europe. Within the credit space, high yield outperformed investment grade both on an excess and total return basis.
- Global investment grade and high yield spreads tightened by 15 bps and 53 bps, respectively.
- The US 10-year yields fell from 3.88% to 3.51%, with the two-year falling from 4.42% to 4.21%. Germany's 10-year yield declined from 2.57% to 2.29%. The UK 10-year yield fell from 3.67% to 3.34% and two-year dropped from 3.56% to 3.46%.
- The US dollar was weaker against most other developed market currencies.

Drivers of fund performance

- The fund posted a positive return and outperformed the Markit iBoxx BBB Euro Corporate Index.
- The main contributors to the outperformance were security selection in utility, energy, services and senior banking as well as off-benchmark exposure to USD denominated senior banking.
- Security selection in real estate and healthcare detracted.

Portfolio activity

- The fund maintains its highest relative weightings in financials, real estate, transportation and energy.
- Financials remain a core sector as we believe that fundamentals remain strong and there is still more room for tightening.
- AAA-rated sovereign bond exposure was trimmed down and the proceeds invested into corporate bonds.
- We expanded our holdings in BB-rated subordinate financial services, telecommunication and services. We also added to our A-rated exposure.

Outlook

- Despite the recent tightening in government bonds yields and credit spreads, we are optimistic about the opportunity set for global credit investors as yields generally remain very attractive.
- The dispersion in the market remains healthy leading to attractive security selection opportunities.
- Corporate fundamentals look solid, and we see less vulnerability in the financial sector compared to history
- The average price of high yield across global markets offers significant upside opportunities for investors, and we believe that investors are still well compensated for risk of defaults, with many companies well-positioned from having already repaired balance sheets during the Covid-19 crisis.
- Even if market sentiment improved lately, there is still a lot of uncertainty in the markets. Therefore, careful bond issuer selection will be important.

Calendar year performance (%)

	A Acc	I Acc	Target**
2022	-16.7	-15.7%	-14.8
2021	-1.1	0.2	-0.6
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
2015	1.5	2.8	-0.9
2014	9.1	10.5	8.0
2013	-	-	-
2012	-	-	-

Source: Schroders as at 30/12/2022 net of fees (where applicable), NAV to NAV (bid to bid), EUR. **iBoxx EUR Corp BBB. The fund's

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

performance should be assessed against its target of exceeding the iBoxx EUR Corporates BBB (TR) index. The fund's investment universe is expected to overlap to a limited extent 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 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

– **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.
– **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.
– **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.
– **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.
– **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 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.
– **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.
– **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.
– **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.
– **Market risk**: The value of investments can go up and down and an investor may not get back the amount initially invested.
– **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.
– **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.

Important information

published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A. These documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders. Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative. For the UK, these documents can be obtained in English, free of charge, from the Facilities Agent Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU or at www.schroders.co.uk. Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time but we will publish our intention to do so on our website, in line with applicable regulatory requirements. The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. 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 amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise. Schroders has expressed its own views and opinions in this document and these may change. Third party data including MSCI 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 terms of the third party's specific disclaimers, if any, are set forth in the Important Information section at www.schroders.com. 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. A summary of investor rights may be obtained from https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/ For your security, communications may be recorded or monitored. Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.