

# Schroder ISF\* Global Convertible Bond Monthly Fund Update

Covering November 2021

## Market Overview

Performance %	Nov. 2021	1 year	3 years (p.a.)	5 years (p.a.)	
USD	I Class	-2.8%	3.7%	11.5%	8.7%
	A Class	-2.9%	2.1%	9.8%	7.0%
	BM	-2.6%	3.3%	10.6%	7.6%
EUR	I Class	-2.8%	2.7%	9.4%	6.4%
	A Class	-2.9%	1.1%	7.7%	4.8%
	BM	-2.7%	2.6%	8.9%	5.8%
CHF	I Class	-2.8%	2.5%	9.0%	6.1%
	A Class	-2.9%	0.9%	7.4%	4.5%
	BM	-2.7%	2.4%	8.7%	5.5%

Source: Schroders as at 30 November 2021. All performance data shown bid to bid, net of fees (where applicable).

## Historical Performance USD

	Fund (A Acc)	Fund (I Acc)	BM
2020	24.0%	25.0%	22.8%
2019	12.4%	14.1%	13.1%
2018	-5.1%	-3.6%	-3.0%
2017	7.4%	9.0%	6.0%
2016	1.6%	3.2%	1.6%

Benchmark: Thomson Reuters Global Focus Convertible Bond Index (currency hedged). Performance shown bid to bid, net of fees (where applicable). Source: Schroders as at 31 December 2020.

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.

Global stock markets started positively into November until renewed lockdown fears, due to the emergence of the Omicron Covid variant, hit investor sentiment. The last few trading days saw retreating stock prices on a wide scale – just when market participants had written off any bigger set-back towards the end of the year.

There is still hope that while the Omicron variant may be highly contagious, it only causes milder symptoms. First indications from major vaccine producers were mixed with BioNTech stating a high effectiveness from the existing Covid shot and Moderna being more sceptical.

Anyway, China is likely to close harbours when Covid incidences occur independent of intensity of symptoms. Also in Europe, numbers of the delta variant are so high that intensive care units are at capacity and countries such as Austria have gone back into full lock-down. In addition, travel bans and quarantine measures are back in place. Investors switched back into 2021 lockdown and risk-off mode immediately. Bond markets sold off with credit spreads widening sharply.

In the US, the Dow Jones shed most performance with a loss of -3.5%, S&P declined -0.7% while Nasdaq could end the month in positive territory with a plus of 0.3%.

In Europe, the overall Eurostoxx ended the month of November down 4.3%. Germany's high beta Dax lost -3.8%, while French CAC moved -1.5%. Italy and UK also stated losses with -3.4% and -2.2% respectively. Spanish IBEX finished the month of November with a significant loss of -8.2%.

In Asia, Japan stated losses with the Nikkei down -3.7%. China's CSI was down -1.6%, the Hang Seng in Hong Kong declined a full -7.4% while Singapore and Korea showed losses of -4.6% and -4.4% respectively. Taiwan was the exception, advancing by 2.6%.

Primary markets were strong and \$17 billion of new converts were launched. The combination of falling equity markets and strong primary market supply resulted in a general cheapening of convertible bonds. Valuations of European converts were most hit, with strong discounts building up in this region.

Convertibles were dragged down by heavy equity market headwinds and shed -2.6% for the month.

Our fund performed slightly underperformed its benchmark.

## Portfolio Overview

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We have not changed our mid-term outlook and have kept the overall portfolio positioning in place. In terms of both equity and credit risk, we continued in a defensive positioning against our balanced benchmark.

Last month, we continue to rebalance the portfolio on both ends of the convexity range. We have sold some positions with a slight loss as our model did not indicate further chances of upside participation. At the same time, we used to reallocate money into converts coming down from their highs which we see as good value.

Overall, our risk position did not change much. We continue to run lower equity exposure than the benchmark and feel quite confident that the overall portfolio is well positioned for rough markets.

In terms of regional positioning, we remain underweight in European convertible bonds. We also retain our overweight to the US, but are invested in the less risky

convertibles. Hence, the risk allocation to the US is defensive against our benchmark.

At the sector level, we have very gently moved capital towards Information Technology names. IT remains dominant at around 35% of the portfolio. This reflects an overweight compared to the benchmark in terms of weight as well as in terms of equity exposure. Our underweight in communication services acts as a bit of a counterweight here.

The primary market swung back into action in November with \$17bn of new converts hitting the market. For the year 2021, we are looking at a new issue volume of around \$165bn.

The fund's running yield stands at 0.3%. The portfolio's bond floor has risen slightly, now standing just under 80%, while the overall credit rating of the fund remains on a BB+ average.

## Outlook and Strategy

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"Inflation hurts Americans' pocketbooks, and reversing this trend is a top priority for me," US President Joe Biden said in a statement after the October CPI data release. As central bankers have opted not to act against a more and more persistent inflation, now politicians seem to take up the job. Similarly, the ECB has started to look at climate change – a clear expansion of responsibilities outside its given mandate. It looks as if the roles and responsibilities of governments and central bankers are somewhat reversing.

The US focussed on a consensus way to combine stability at the helm of the Fed with Jerome Powell, and a political gift to the more left leaning democrats by appointing Lael Brainard as the vice president. And immediately after his nomination, Powell picked up the ball: "We know that high inflation takes a toll on families, especially those less able to meet the higher costs of essentials like food, housing, and transportation. We will use our tools both to support the economy and a strong labour market, and to prevent higher inflation from becoming entrenched."

The last chapter in this tale is closer to reality. Powell is no longer referring to inflation as transitory, and thinks openly about speeding up the tapering process. This reminds us of the old stock market idiom; bull markets do not die of old age, they are killed by the Fed.

The late stages of 2021 saw stock markets making new highs. However, the good performance numbers were

already based on a handful of companies only. There was little market breadth. At the same time, there were numerous potential triggers for a set-back: supply-chain problems, renewed lock-downs, inflationary fears, central bank tapering and potentially tightening, energy supply problems, and highly leveraged equity markets with significant volumes in options. Markets simply did apply a degree of irrational exuberance.

This makes it easy to forecast at least one variable for next year: volatility is likely to be high as we will see set-back(s) in equity markets. In such an event, usually all risk assets sell-off simultaneously, and prices drop across the spectrum of stocks, bonds, convertibles, gold, and risk assets.

We would not be surprised to see indiscriminate, across the board sell-offs in 2022. In such moments, there are few places to hide with even diversification offering little protection. The "built-in" safety net of convertible bonds can absorb some part of downward shocks. This, in our view, is going to be important in 2022, and what will make convertibles a valuable asset class for the year ahead.

## Risk Considerations

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**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.

**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.

**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.

**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.

## Fund Data as at 30 November 2021 \*\*\*

Team	
Portfolio managers	Dr. Peter Reinmuth Chris Richards, CFA

Size & Holdings	
Fund size in base currency (USDm)	2'646
Number of issues	223

Portfolio Statistics****	
Equity Exposure	32.84%
Delta	44.78%
Bond Floor	79.09
Average Rating	BB+
Credit Spread (bp)	224
Running Yield	0.31%
Effective Duration (years)	2.33

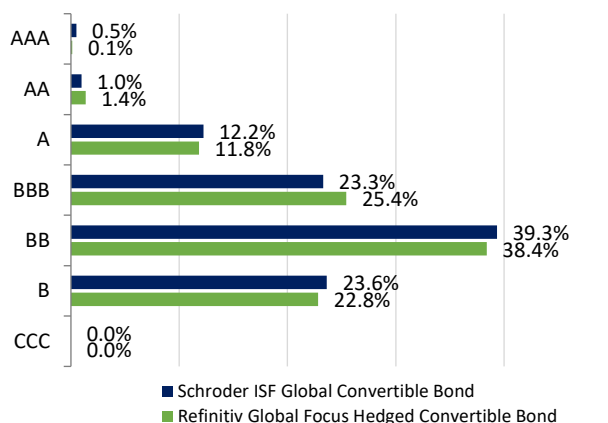
\*\*\*Source: Schroders as at 30 November 2021. Please note that the sector and country split follows the underlying equity rather than the issuer.

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

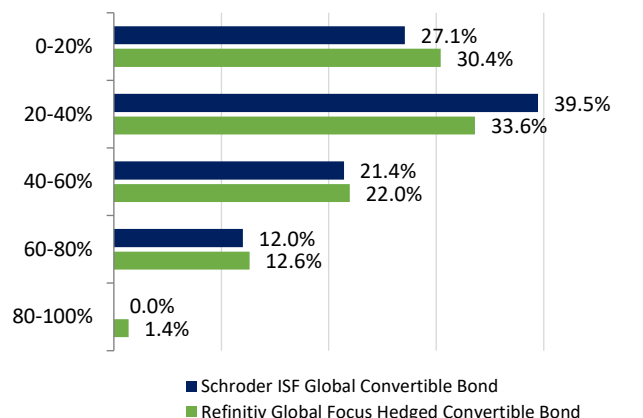
Region Allocation	Portfolio	Index
Europe	21.14%	29.00%
Asia	14.27%	13.71%
Japan	7.59%	6.37%
Americas	51.40%	48.55%
Others	1.67%	2.37%
Cash	3.93%	0.00%

Sector Allocation	Portfolio	Index
Communication Services	11.69%	13.82%
Consumer Discretionary	15.12%	16.11%
Consumer Staples	2.41%	3.03%
Energy	0.00%	1.60%
Financials	2.34%	3.59%
Health Care	12.35%	10.36%
Industrials	7.76%	9.99%
Information Technology	35.25%	26.94%
Materials	4.10%	5.90%
Real Estate	1.55%	3.88%
Utilities	3.50%	4.79%
Cash	3.93%	0.00%

### Credit Rating



### Equity Exposure

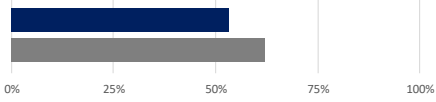
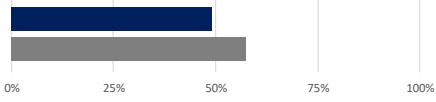
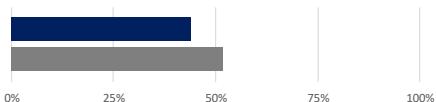

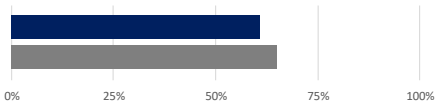




## Top Ten Issues

Holdings	Portfolio	Sector
1 ELECTRICITE DE FRANCE SA CONV REGS 0% 14 SEP 2024	1.98%	Utilities
2 FORD MOTOR COMPANY CONV 144A 0% 15 MAR 2026	1.58%	Consumer Discretionary
3 CELLNEX TELECOM SA CONV REGS .75% 20 NOV 2031	1.55%	Communication
4 AMERICA MOVIL BV CONV REGS 0% 02 MAR 2024	1.26%	Communication
5 AIRBNB INC CONV (144A) 0% 15 MAR 2026	1.19%	Consumer Discretionary
6 COUPA SOFTWARE INC CONV .375% 15 JUN 2026	1.14%	Info Tech
7 QIAGEN NV CONV REGS 0% 17 DEC 2027	1.09%	Health Care
8 DEXCOM INC CONV 144A .25% 15 NOV 2025	1.02%	Health Care
9 UBER TECHNOLOGIES INC CONV 144A 0% 15 DEC 2025	0.97%	Industrials
10 WORLDLINE SA/FRANCE CONV REGS 0% 30 JUL 2026	0.93%	Info Tech

Source: Schroders as at 30 November 2021.

## Sustainability Performance Measures

Category	Measure	Description	Units	Fund	Universe	Summary
Environment	Carbon intensity	Scope 1&2 GHG emissions relative to each \$1mn of sales	Tonnes of CO2 per \$mn sales	64	97	
	Policy Energy Efficiency	Does the company publish a policy to improve energy efficiency?	% of companies with a policy on energy efficiency in place	53%	62%	
	Policy Emissions Reduction	Does the company publish a policy to reduce GHG emissions?	% of companies with a policy on emission reduction in place	49%	57%	
Social	Policy Human Rights	Does the company publish a policy governing human rights standards of its operations	% of companies with a policy on human rights in place	44%	52%	
	Employee Fatalities	Employees killed during the year, while at work	Annual number of employee fatalities resulting from operational accidents	0.1	0.2	
	Employees Community Work Program	Is there a program for employees to volunteer with community initiatives?	% of companies with Employees Community Work programs in place	61%	65%	
Governance	Independent Board Members	Percentage of independent directors on the Board	% of total directors who are independent	47%	46%	
	CEO-Chairman Separation	Are the CEO and Chairman separate role (different people)?	% of companies with separate CEO and Chairman	47%	48%	
	Board Gender Diversity	Percentage of women on the Board	Average percentage of women on Board	18%	18%	

Source: Thomson Reuters ASSET 4. Data represents the latest available data as at 30 June 2021. Note: All of the analysis shown is based on company-disclosed information collected and provided by Thomson Reuters. We recognise that some judgement is applied in determining these specific datapoints (for example, whether a broad Corporate Social Responsibility policy which refers to energy efficiency constitutes an energy efficiency policy). We have calculated the weighted average for each metric for the fund and benchmark. For further details on each metric, please refer to the Additional information on sustainability performance measures on the following page.

Source: Schroders as at 30 September 2021.

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