Schroders

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Schroder ISF* Global Credit Income

Fund Managers: Julien Houdain & Martin Coucke | 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 with 2-year rates markedly higher, but longer-dated yields unchanged or lower.
- US investment grade (IG) credit made small gains but euro IG was negative, both in line with government bonds. Emerging market corporates saw negative returns, while sovereigns (hard currency) were flat.

Drivers of fund performance

- The fund made a small negative return. Positives included our US rates curve flattener position, US HY hedge, long-dated healthcare holdings and allocation to securitised.
- Exposure to interest rates detracted in a rising rate environment. We saw positive performance from a German residential real estate company, but overall exposure to European and Asian real estate detracted.

Portfolio activity

- We remain moderately constructive on credit and positioning was mostly consistent over the month. We added selectively in HY, mostly in euro B, including in telecoms, and inaugural social bonds from companies in financial services and healthcare. About 40% of the portfolio is in HY.
- We continued selectively adding to EM sovereigns, purchasing BBB-rated new issues from Peru, which should benefit from higher commodity prices.
- We keep duration low across the portfolio, in the US particularly, and continued adding to securitised, which has low duration, but attractive yield.
- IG credit remains a core ballast, with valuations, though elevated, well underpinned. Significant sector exposures remain in real estate and senior financials. The portfolio is well diversified across non-cyclical areas (telecoms, healthcare) and areas which should benefit from economic recovery.
- We maintained portfolio hedges in HY.

Outlook/positioning

- Overall valuations remain fairly full, but well supported by company fundamentals. Opportunities are mostly selective. We are starting to see better relative value in non-cyclical sectors given the strong recovery in cyclicals. We see potential for further upgrades to drive 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. The fund is Article 8 accredited.

Calendar year performance (%)*

Year	A DisMF	I DisMF	BM1	BM2	BM3	BM4
2020	6.6	8.0	7.9	10.4	7.0	5.9
2019	11.3	12.9	13.2	11.5	12.6	14.4
2018	-1.6	-0.3	-1.4	-3.6	-4.1	-4.6
2017	7.8	9.3	6.7	9.1	10.4	9.3
2016	-	-	-	-	-	-

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), USD, as at 31/12/2020. Comparator benchmarks: 1. Bloomberg Barclays (BbgBarc) Multiverse ex Treasury A+ to B- USD Hedged, 2. BbgBarc Global Aggregate Corp TR, 3. BbgBarc Global High Yield TR USD), 4. JP Morgan EMBI Global 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 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.

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

- 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 – 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.

Important information

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