Schroders

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Schroder ISF* Global Credit Income

Fund Managers: Julien Houdain & Martin Coucke | Fund update: February 2023

Performance overview

- After a strong start to the year for credit, total returns turned negative in February driven by rate volatility on the back of strong labour market and retail sales data.
- The Federal Reserve hiked rates by 25bps at the beginning of the month while the ECB raised rates by 50bps.
- European investment grade spreads tightened marginally, while US investment grade spreads ended the month slightly higher. High yield outperformed investment grade both in the US and Europe. However, total returns were broadly negative as government bond yields climbed.
- The US 10-year yields rose from 3.51% to 3.92%, with the two-year rising from 4.21% to 4.82%. Germany's 10-year yield increased from 2.29% to 2.65%. The UK 10-year yield rose from 3.34% to 3.71% and two-year increased from 3.46% to 4.07%.
- The US dollar gained ground in February, with the currency outperforming most G-10 peers.

Drivers of fund performance

- The fund's performance was negative for the month, largely driven by duration, given the rise in government bond yields.
- US energy, technology and telecommunications were the main sector detractors.
- European real estate generated some positive performance, as did European banks and financial services which have been relatively resilient to higher government bond yields.

Portfolio activity

- Credit markets shifted in February from a soft landing narrative to a no landing narrative of stronger growth and inflation.
- We added to 5 year and 10 year futures in US duration while taking off some sterling duration at the start of the month when gilts outperformed versus treasuries. We also began adding to EUR duration near the end of the month given the repricing of rates.
- We trimmed down US investment grade and some of our European high yield positions.
- BBB-rated holdings were reduced, mainly through the reduction of senior banking names, telecommunications and real estate. BB-rated names were also reduced.
- During the month, we moved spare cash into treasuries to maximise yield.
- The portfolio remains focused towards financial institutions and defensives.

Outlook

- Looking forward, we remain of the view that credit offers investors good value, both in terms of improving income streams and the potential for attractive returns.
- Having said that, markets have the potential to stay choppy with inflation remaining higher than expected.
- Overall, credit still appears to provide attractive compensation for risk, as corporate fundamentals look broadly robust and the default rate cycle is expected to be shallow.
- Market dispersion is looking healthy. Careful bond issuer selection will be important, particularly looking for issuers with cash flows rising with inflation, or whose business models are resilient to a slowdown.

Calendar year performance (%)*

Year	A DisMF	I DisMF	BM1	BM2	BM3	BM4
2022	-12.7	-11.5	-14.1	-14.1	-12.7	-16.5
2021	0.9	2.3	-0.2	-2.9	1.0	-1.5
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	-	-	-	-	-	-
2015	-	-	-	-	-	-
2014	-	-	-	-	-	-
2013	-	-	-	-	-	-
2012	-	-	-	-	-	-

Source: Schroders, NAV to NAV (bid to bid), net of fees (where

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

applicable), USD, as at 30/12/2022. Comparator benchmarks: 1. Bloomberg (Bbg) Multiverse ex Treasury A+ to B- USD Hedged, 2. Bbg Global Aggregate Corp TR, 3. Bbg Global **High Yield TR USD), 4. JP Morgan EMBI Global TR. Comparator** benchmarks included for performance comparison purposes and do not have any bearing on how the manager invests the fund's assets.

– 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.

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. A reduction in the financial strength of the issuer of such bonds 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.
– **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.
– **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 chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

Important information