Schroders

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Schroder ISF* Global Multi Credit

Fund Managers: Patrick Vogel & Julien Houdain | Fund update: Third Quarter 2021

Performance overview

- US and European government yields rose marginally for the quarter, initially declining on signs of growth moderating, reversing this move in September amid a hawkish shift from central banks and continuing inflationary pressure. UK yields rose on increased expectations for policy tightening.
- The US 10-year Treasury yield finished at 1.49%, little changed, the UK 10-year yield rose from 0.72% to 1.02%. In Europe, Germany's 10-year yield was barely changed at -0.19%, Italy's was 4bps higher at 0.86%.
- High yield credit made positive returns, due to income, while investment grade was little changed. European IG outperformed government bonds, while the US was flat to Treasuries. Emerging market government bond yields rose. EM credit made a small positive return.

Drivers of fund performance

- The fund posted a small negative return. Positives included US dollar holdings in telecoms and financials, including high yield positions.
- The main detractors were exposure to German real estate companies, and emerging markets.

Portfolio activity

- We broadly trimmed exposure, principally in euro BBB where we have significant holdings, ending the period with increased cash. BBB remains a solid core holding in the portfolio.
- We added in EM sovereigns, purchasing a new A-rated issue in Latin America and a B-rated European sovereign. EM exposure remains just over 25%, mainly in corporates.
- HY exposure remains well over one-third of the portfolio, given positive fundamentals, particularly ratings upgrades trends, and selective value. We made selective additions in media and services.
- Real estate remains the largest sector position, focused on residential and logistics and mainly in Europe. We have significant exposure to energy and transportation.
- We maintain key holdings in telecoms, healthcare and utilities, with lower exposure to industrial cyclicals.

Outlook/positioning

- Valuations are fairly full, but remain supported by healthy corporate fundamentals. Opportunities are selective and we see room for further upgrades which could drive total returns going forward.
- Economic activity is still robust, but moderating. Companies have seen a strong recovery in earnings supporting balance sheet strength. High yield defaults are low.
- The key questions concern inflation and withdrawal of monetary support, which together mean further moves higher in bond yields are quite likely.
- 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 (%)*

Year	A Acc	C Acc	Target**
2020	7.5	8.3	7.9
2019	13.7	14.5	13.2
2018	-3.4	-2.7	-1.4
2017	7.9	8.7	6.7
2016	-	-	-

Net of fees, NAV to NAV (bid to bid), USD. Source: Schroders, as at 31/12/2020. **Bloomberg Barclays Multiverse ex Treasury A+ to B- USD Hedged. Fund not managed with reference to a benchmark but its performance may be measured against one or more.

- 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.

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

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.
- **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.

Important information

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