

Schroder ISF* Global Sustainable Convertible Bond

Fund Managers: Dr. Peter Reinmuth & Gian-Reto Bonadurer | Fund update: Feb 2023

Performance overview

- The overoptimistic stock market rally petered out in February.
- Moving away from the Goldilocks scenario of lower inflation, falling interest rates and a soft landing that avoids a recession, market participants focussed more on sticky inflation and low to negative growth figures and low monetary growth.
- In the US, the S&P 500 and the Dow Jones both stated losses of -2.5% and -3.9%, respectively. The tech and growth heavy Nasdaq protected a little better with a loss of 1% in January.
- European bourses withstood the US headwinds and the overall Eurostoxx stated a gain of just under -2% for February. With most of the European indices closing the month on a positive note, the Swiss SMI was the odd one out with a loss of -1.7%.
- Stock markets in Asia did an about turn after the significant China re-opening gains in January. In Hong Kong, the Hang Seng shed -9.4% while China's CSI was down -2%.
- The global MSCI equity index finished the month of February with a slight loss. Convertibles protected well against losses from the equity market. Our customised benchmark was -1.5% in EUR hedged terms. Our fund underperformed.

Drivers of fund performance

- The fund underperformed its benchmark in February.
- Convertible bonds showed a good level of protection against equity market headwinds from the US.
- The reasons for our underperformance in February are stock and ESG specific. Our zero-weight positions in **Nippon Steel**, **Royal Caribbean**, and **BP** all contributed to relative underperformance.
- On the positive side, our underweight positions in **Wayfair** and **Southwest Airlines** contributed to relative performance.-

Portfolio activity

- We used the rally to rebalance our fund slightly and to sell into market strength in the first few trading days of the month.
- In terms of regional positioning, we remain underweight in convertible bonds from Europe and Asia. In terms of risk exposure, we have slightly trimmed our US overweight position.
- At the sector level, information technology names remain dominant in the portfolio. This reflects an overweight compared to the benchmark in terms of weight as well as equity exposure. We are underweight to energy, materials and real estate.
- The fund maintains a high overall ESG score of 67% with 77% of its asset in sustainable investments. We maintain a significant overweight in the segment of top rated ESG companies.
- February turned out to be a good month for primary market activity. We saw USD 10.2bn of new paper coming to the market. The US remained the dominant region, followed by European converts. Amongst others, we participated in **ON Semi**.
- Despite the general lack of supply, valuations continue to be cheap, reflecting a 'risk off' mood within the convertible bond market.

Outlook

- In 2022, one of the most significant statements in our newsletters was: "The US Federal Reserve (Fed) has clearly triggered an economic climate change." For 2023, we are changing that to: all signs indicate a recession with a significant earnings reduction.
Net profit margins for the S&P 500 have been falling for the last six quarters already.
- Rates are high now, and especially our growth universe of stocks has suffered significantly. The second part of the correction will most likely be based on lower company earnings. This down move could affect a much broader equity market spectrum.

- Central banks continue to raise interest rates, albeit at a lower speed in the US. Still the overall money supply is falling. In the US, M2 has turned negative for the very first time since the 1950s. In Europe, M1 is negative for the first time in ECB history. Altogether markets are faced with a strong liquidity withdrawal.
- With central bank headwinds remaining, we believe that like summer 2022, this market rally will turn out to be a bear market rally.
- We believe that the start-of-the-year market rally should come to a stop, either by central bank intervention – or in a market wake- up call that a soft landing and an interest rate pivot simply do not go together. If investors remain in doubt, the current quarterly earning session will allow a first re-evaluation. We regard the strong advances in low quality stocks and the high volume of ODTE (stock options with just 24 hours to their maturity) as another sign of irrational exuberance.
- Looking back at US data in January, we see consumer and producer prices still above their expectations. At the same time, the job market remains too strong. Despite Jerome Powell's remarks, financial conditions are lax and the announced pain that markets will have to suffer is currently absent.
- Credit spreads have not exploded, neither in the investment grade paper, nor on the junk bond market. We think there could be a credit crunch somewhere in the global highly leveraged economy. In this case, and probably only in this case, will central banks be forced to do a U-turn and flood markets with liquidity. And bad news such as this will be bad news for the market.
- How will convertible bonds fare in such a scenario? Given that a significant part of our convertible universe remains balanced to slightly defensive, we remain constructive on our asset class. Convertibles traditionally are all weather instruments. We see strong arguments for an investment in convertible bonds.
- We need to see a stable and sustainable return to traditional convexity features with good upside participation and efficient downside protection. This overall litmus test for convertibles has improved since the first half of 2022. Since the start of the year, equity markets as measured by the broad MSCI equity index are up by 4.2% whereas convertibles as measured by the Refinitiv Global Focus are up by 2.6%, which translates into a 63% upside participation.
- We now need to see more efficient downside protection in the next equity correction.
- The sell-off in converts started earlier than broad markets and the underlying equities suffered strongly. The overall effects remind us of the tech bubble burst in 2001. From a fundamental view, most of the companies are non-cash burning, but delivering revenue.
Our universe remains biased towards US names. The primary market in January and February brought almost USD 16bn of new converts. Importantly, the issuance was driven by opportunistic financing not by despair and illiquidity on the straight bond market. That is a positive sign for investors' interest returning to the CB market.
- Convertibles remain cheap and are trading around 1% under their fair value. That is in line with a general sell off of risk assets, but again the situation is a bit overdone, and the asset class is oversold.
- 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.

Calendar year performance (%)

Year	Fund (A Acc)	Fund (I Acc)	BM
2022	-18.8%	-17.6%	-15.5%
2021	-1.9%	-0.40%	-0.9%
2020	14.7%	16.41%	16.1%
2019			
2018			
2017			
2016			
2015			
2014			
2013			

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), EUR, as at 30/12/2022. The fund's performance should be assessed against its target benchmark being to exceed the customised blend of 2/3 Refinitiv Global Focus (EUR hedged), 1/3 Refinitiv Global Focus Investment Grade (EUR hedged).. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the target benchmark.

Risk considerations

- **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.
- **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.
- **Interest rate risk:** The fund may lose value as a direct result of interest rate changes.
- **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.
- **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.
- **Credit risk:** A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **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.
- **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.
- **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.
- **Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.
- **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

This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the “Company”). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus. Subscriptions for shares of the Company can only be made on the basis of its latest Key Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A.

For Austria, these documents may be obtained in German, free of charge, from the following link: www.eifs.lu/schroders and from our Information Agent Schroder Investment

Management (Europe) S.A, German Branch, Taunustor 1, D-60310 Frankfurt am Main, Germany.

For Belgium, these documents may be obtained in French and Dutch, free of charge from the following link: www.eifs.lu/schroders. The Company is a Luxembourg-based Société d'Investissement à Capital Variable (SICAV) with unlimited duration which is coordinated with regard to the European regulations and meets the criteria for Undertakings for Collective Investment in Transferable Securities (UCITS). The total net asset value is published on

the website of the Belgian Asset Managers Association (BEAMA) on www.beama.be. In addition, the tariff schedules are available from distributors in Belgium. The fee on the stock exchange transactions of 1.32 % (with a maximum of € 4,000 per transaction) is payable on the purchase or conversion of capitalisation shares if they are carried out by the intervention of a professional intermediary in Belgium.

Dividends paid by the Company to natural persons who are Belgian tax residents are subject to a Belgian withholding tax at a rate of 30% if they are paid by the intervention of a financial intermediary established in Belgium (this information applies to all distribution shares). If the dividends are received by such natural persons without the intervention of a financial intermediary established in Belgium, they must indicate the amount of the dividends received in their tax return and will be taxed on that amount at a rate of 30%. In the event of the redemption or sale of shares of a sub-fund investing, directly or indirectly, either (i) more than 25% of its assets in receivables with regard to shares acquired by the investor before January 1, 2018, or (ii) more than 10% of its assets in receivables with regard to the shares acquired by the investor from 1 January 2018 (provided, in each of these two cases, that certain additional conditions are met), the interest component of this redemption or sale price is subject to a 30% tax in Belgium.

For Bulgaria, the Key Information Documents may be obtained in Bulgarian and the other documents in English, free of charge from the following link: www.eifs.lu/schroders.

For the Czech Republic, the Key Information Documents may be obtained in Czech and the other documents in English, free of charge from the following link: www.eifs.lu/schroders.

For Denmark, the Key Investor Information Documents may be obtained in Danish and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders and Schroder Investment Management (Europe) S. A. dansk filial, Bredgade 45C, 2nd floor, DK-1260 Copenhagen K. A decision on a possible investment should be made on the basis of personal advice.

For Finland, the Key Information Documents may be obtained in Finnish, Swedish and English and the other documents in English, free of charge at the following link: www.eifs.lu/schroders.

For France, these documents may be obtained in French, free of charge, from the following link: www.eifs.lu/schroders, Schroder Investment Management (Europe) S.A., Paris Branch, 1, rue Euler, 75008 Paris and the Centralising agent Société Générale, 29 boulevard Haussmann, F-75009 Paris.

For Germany, these documents may be obtained in German, free of charge, at the following link: www.eifs.lu/schroders and Schroder Investment Management (Europe) S.A., German Branch, Taunustor 1, D-60310 Frankfurt am Main.

For Greece, the Key Information Documents may be obtained in Greek and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Hungary, the Key Information Documents may be obtained in Hungarian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Iceland, the Key Information Documents may be obtained in Icelandic and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Ireland, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For Italy, these documents may be obtained in Italian, free of charge, from the following link: www.eifs.lu/schroders, Schroder Investment Management (Europe) S.A. Succursale Italiana, Via Manzoni 5, 20121 Milan and from our distributors. These documents and the list of distributors are available at www.schroders.it

For Latvia, the Key Information Documents may be obtained in Latvian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Liechtenstein, these documents may be obtained in German, free of charge, from the following link: www.eifs.lu/schroders.

For Lithuania, the Key Information Documents may be obtained in Lithuanian and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Luxembourg, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For Malta, these documents may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For the Netherlands, the Key Information Documents may be obtained in Dutch and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Norway, the Key Information Documents may be obtained in Norwegian and English and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Poland, the Key Information Documents may be obtained in Polish and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders. The company is a Luxembourg registered undertaking for the collective investment in transferable securities and operates in Poland in accordance with the Act of 27 May 2004 on investment funds and the management of alternative investment funds (Journal of Laws of 2004 No. 146, item 1546 as amended). Depending on the applicable tax obligations, the investor may be required to pay tax directly on the income arising from investments in the units of the fund.

For Portugal, the Key Information Documents may be obtained in Portuguese and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders, from the authorised placing entities and on www.schroders.pt.

For Spain, these documents may be obtained in Spanish, free of charge, from the following link: www.eifs.lu/schroders, the CNMV, the distributors and on www.schroders.es. The Company is registered in the Administrative Register of Foreign Collective Investment Institutions marketed in Spain of the National Securities Market Commission (CNMV), with the number 135. Its depository is JP Morgan SE and its management company is Schroder Investment Management (Europe) S.A.. The Company is a UCITS registered in Luxembourg.

For Sweden, the Key Information Documents may be obtained in Swedish and the other documents in English, free of charge, from the following link: www.eifs.lu/schroders.

For Switzerland, 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 may be obtained in English, free of charge, from the following link: www.eifs.lu/schroders.

For Israel: Note regarding the Marketing material for Qualified Clients or Sophisticated Investors only: This communication has been prepared by certain personnel of Schroder Investment Management (Europe) S.A (Registered No. B 37.799) or its subsidiaries or affiliates (collectively, "SIM"). Such personnel are not licensed by the Israeli Securities Authority. Such personnel may provide investment marketing, to the extent permitted and in accordance with the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995 (the "Investment Advice Law"). This communication is directed at persons (i) who are Sophisticated Investors (ii) Qualified Clients ("Lakoach Kashir") as such term is defined in the Investment Advice Law; and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and SIM will not make such products or transactions available to retail clients

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. Schroders has expressed its own views and opinions in this document and these may change.

This fund does not have the objective of sustainable investment or binding environmental or social characteristics as defined by Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the "SFDR"). Any references to the integration of sustainability considerations are made in relation to the processes of the investment manager or the Schroders Group and are not specific to the fund.

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.

Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

Schroders has expressed its own views and opinions in this document and these may change.

Third party 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 Prospectus and/or www.schroders.com contains additional disclaimers which apply to the third party data.

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/private-investor/footer/complaints-handling/>.

For your security, communications may be recorded or monitored.

Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799.

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.

Authorized by the Comissão do Mercado de Valores Mobiliários (CMVM) to operate in Portugal under the free provision of services regime, and with a branch in Spain, authorized and registered with the CNMV under number 20.

Distributed by Schroder Investment Management (Europe) S.A., Spanish branch, registered in the EEA investment firm register with the National Market Commission of Securities (CNMV) with the number 20.

Distributed in Switzerland by Schroder Investment Management (Switzerland) AG, Central 2, CH-8001 Zurich, Switzerland, a fund management company authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Bern.

Third Party Data Disclaimer: Third party 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 Prospectus and/or www.schroders.com contains additional disclaimers which apply to the third party data.

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. **Third Party Data Disclaimer:** Third party 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 Prospectus and/or www.schroders.com contains additional disclaimers which apply to the third party data.