Schroders

Schroder ISF* Global Sustainable Convertible Bond
Monthly Fund Update
Covering November 2021

Market Overview

	Fund (A Acc)	Fund (C Acc)	Fund (I Acc)	BM
November	-1.8%	-1.7%	-1.7%	-2.2%
3 months	-2.8%	-2.6%	-2.5%	-2.4%
1 year	2.4%	3.1%	3.9%	2.2%
Year 2020	14.7%	15.6%	16.4%	15.8%
Year 2019	7.7%	8.4%	9.2%	8.0%

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

BM: Customised blend: 2/3 Refinitiv Global Focus (EUR hedged), 1/3 Refinitiv Global Focus Investment Grade (EUR hedged).

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.

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

Convertibles were dragged down by heavy equity market headwinds and our customised benchmark shed -2.2% for the month of November. Our fund outperformed.

Portfolio Overview

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 customised benchmark. This paid out especially in the last trading days of November.

In terms of regional exposure, we continue with our strong underweight to Europe. We have exploited weak trading days and slightly added to European names. Most examples here come with above average ESG scores such as **Deutsche Post** or **Shop Apotheke**.

Europe will remain an underweight due to our strict ESG exclusion filter, which of course does not allow for nuclear or fossil burning electricity generation.

Our equity exposure remains underweight to benchmark and stands at 31%, which comes with a high 81% bondfloor.

At the sector level, 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 fund's running yield stands at 0.4%. The overall credit rating of the fund has improved to a BBB- average.

Outlook and Strategy

"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 more and more persistent inflation, it seems politicians may take up that 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 reappointed, 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

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.

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. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

Fund Data as at 30 November 2021 **

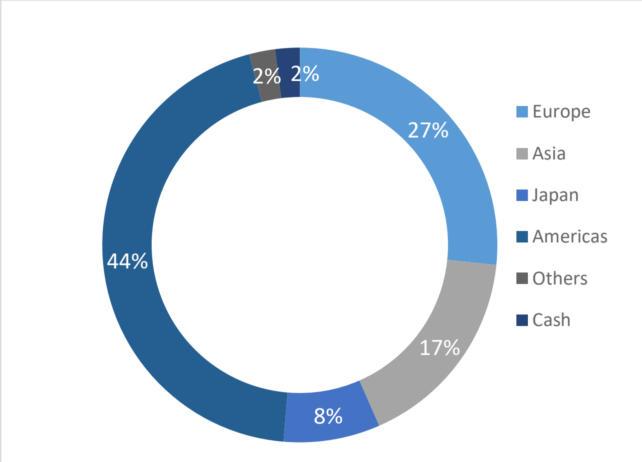
Team	
Portfolio managers	Gian-Reto Bonadurer Dr. Peter Reinmuth Chris Richards, CFA

Size & Holdings	
Fund size in base currency (EUR million)	375
Number of issues	188

Portfolio Statistics***	
ESG score	75%
Equity Exposure	31.15%
Delta	42.79%
Bond Floor	85.15%
Average Rating	BB+
Credit Spread	225
Yield	0.38%
Effective Duration	2.47

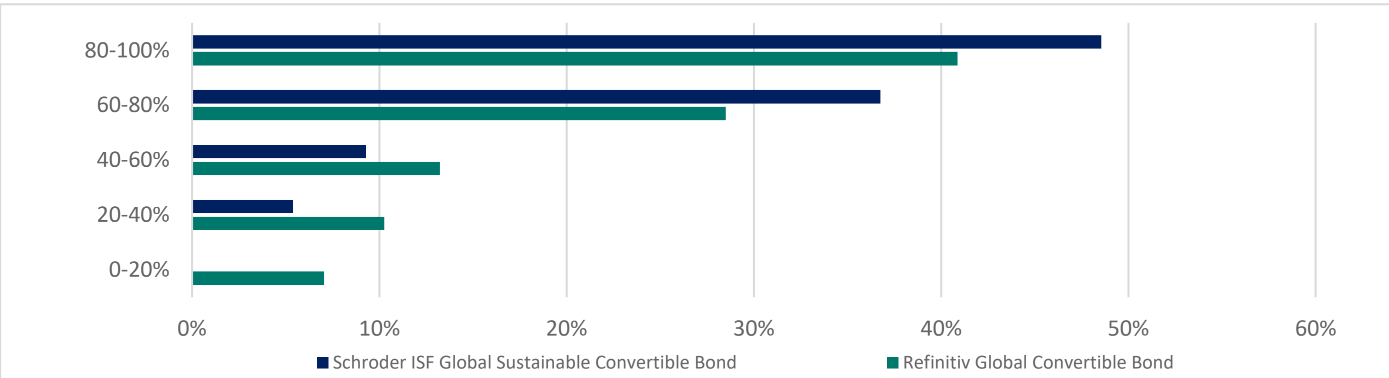
Bond floor: the lowest value that convertible bonds can fall to, given the present value of the remaining future cash flows and principal repayment. Delta: the sensitivity of the convertible bond price to the change in price of the underlying shares.

Region Allocation



Sectors	
Communication Services	10.22%
Consumer Discretionary	14.64%
Consumer Staples	2.34%
Energy	0.00%
Financials	2.83%
Health Care	16.24%
Industrials	8.64%
Information Technology	34.84%
Materials	3.04%
Real Estate	4.44%
Utilities	0.46%
Cash	2.30%

ESG scores****



**Source: Schroders as at 30 November 2021. Please note that the regional 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.
**** ESG scores vs a broad non-ESG compliant universe as measured by the convertible index Refinitiv Global with over 450 securities with companies violating our fund's exclusion criteria allocated to the bottom quintile.

Proprietary Sustainability Metrics %

Overall Impact
Data as at 29.10.2021

The fund maintains a higher overall sustainability score than the Thomson Reuters Global based on the investment manager's rating criteria.

The Schroders Impact score is based on Schroders' proprietary tool, SustainEx™. SustainEx™ provides an estimate of the potential societal or environmental impact that may be created by the companies and other issuers in which the fund is invested. The result is expressed as a notional percentage (positive or negative) of sales of the relevant underlying companies and other issuers. For example, a SustainEx™ score of +2% would mean a company contributes $2 of relative notional positive impact (i.e. benefits to society) per $100 of sales.

We calculate SustainEx™ scores for companies and other issuers in the fund to arrive at the total fund score.

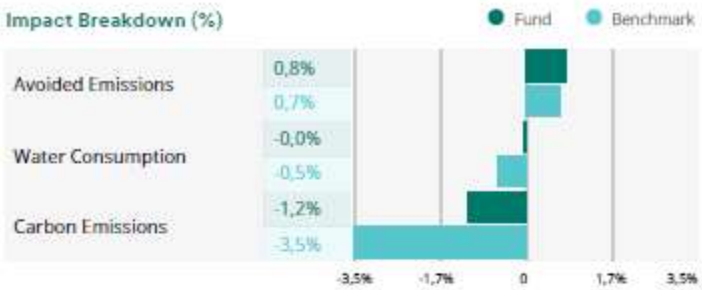
The "Overall Impact" shown is a measure of the fund's estimated impact compared to that of its benchmark, in each case calculated as a relative notional percentage as described above.

The "Impact on People" and "Impact on Planet" measure the fund's estimated underlying benefits and harms, as compared to its benchmark, in each case calculated as a relative notional percentage as described above.

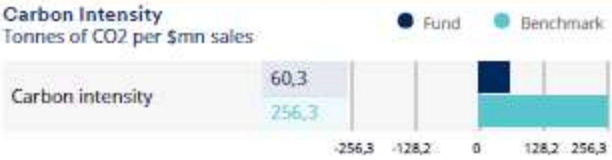
Overall impact is a measure of the fund's impact compared to its benchmark.

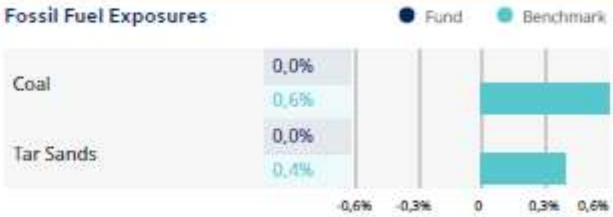
Overall Impact On: People

Overall Impact On: Planet



Climate dashboard





Sub-funds that are categorised as Article 8 or Article 9 under SFDR apply a revenue-based exclusion on companies operating in the coal sector. Companies generating more than 10% of their revenue from thermal coal extraction and/or 30% of their revenue from coal-fired power are systematically excluded. Some sub-funds apply a more stringent exclusion criterion. Please refer to the fund sustainability disclosures for more details. Any fund exposure to coal reflects investments in companies whose coal-related revenues are below the accepted threshold.

Sustainability performance measures

The below table shows sustainability performance measures of this fund. It uses reported company data to identify or derive Environmental, Social and Governance (ESG) metrics on an objective basis. With this we compare a range of ESG metrics for the fund and its benchmark where applicable, and identify the measure coverage of the fund. The charts illustrate how the portfolio and benchmark compare for each metric.

Category	Measure	Description	Units	Fund	Benchmark
People	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	56,7% Coverage: 95,9%	57,4% Coverage: 93,6%
	Board Gender Diversity	Percentage of women on the Board	% Average percentage of women on boards	26,0% Coverage: 95,9%	25,4% Coverage: 93,6%
	Employees Community Work Program	Is there a programme for employees to volunteer with community initiatives?	% of companies with Employees Community Work programmes in place	75,8% Coverage: 95,9%	76,8% Coverage: 93,6%
	Independent Board Members	Percentage of independent directors on the Board	% of total directors who are independent	69,3% Coverage: 95,9%	69,2% Coverage: 93,6%
	CEO-Chairman Separation	Has the Chairman ever been CEO?	% of companies where the Chairman has not been CEO	58,5% Coverage: 95,9%	47,0% Coverage: 93,6%
Planet	Water Intensity	Water withdrawal relative to each $1mn of sales	Cubic metres of water per $mn sales	1.252,8 Coverage: 28,6%	40.964,1 Coverage: 33,2%
	Policy Energy Efficiency	Does the company publish a policy to improve energy efficiency?	% of companies with a policy on energy efficiency in place	70,8% Coverage: 95,9%	69,6% Coverage: 93,6%
	Policy Emissions Reduction	Does the company publish a policy to reduce GHG emissions?	% of companies with a policy on emission reduction in place	65,4% Coverage: 95,9%	68,1% Coverage: 93,6%

Source: Refinitiv as at 31.10.2021. The analysis shown is based on company disclosed information. Coverage is calculated based on the average weighted by holding percentage for each metric for the fund and benchmark. Coverage shows the % of company reported data that is available for each measure for the fund and the benchmark.

Top 10 Positions

Holdings		Portfolio	Sector
1	AMERICA MOVIL BV CONV REGS 0% 02 MAR 2024	1.77%	Communication
2	MEITUAN 0.0000 CONV 27/04/2028 SERIES CORP	1.57%	Consumer Discretionary
3	DEUTSCHE POST AG CONV REGS .05% 30 JUN 2025	1.57%	Industrials
4	FORD MOTOR COMPANY CONV 144A 0% 15 MAR 2026	1.54%	Consumer Discretionary
5	WORLDLINE SA/FRANCE CONV REGS 0% 30 JUL 2026	1.34%	Info Tech
6	RAG-STIFTUNG CONV REGS 0% 16 MAR 2023	1.26%	Materials
7	STMICROELECTRONICS NV CONV REGS 0% 04 AUG 2027	1.25%	Info Tech
8	COUPA SOFTWARE INC CONV .375% 15 JUN 2026	1.14%	Info Tech
9	DEXCOM INC CONV 144A .25% 15 NOV 2025	1.13%	Health Care
10	TAG IMMOBILIEN AG CONV REGS .625% 27 AUG 2026	1.09%	Real Estate

Source: Schroders as at 30 November 2021.