Schroders

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Schroder ISF* Global Corporate Bond

Fund Managers: Rick Rezek & Alix Stewart | Fund update: December 2022

Performance overview

- Global investment grade corporate bond returns were muted amid easing inflation concerns and lower interest rate volatility in December.
- Investment grade (IG) corporate bonds outperformed government bonds over the month. It also outperformed global high yield but underperformed emerging markets (EM) debt in excess return terms.
- The fund modestly outperformed the benchmark in December and performed in line with the benchmark in Q4.

Drivers of fund performance/Portfolio activity

- Over the month, a modestly shorter duration positioning relative to the benchmark was the primary contributor. This was partially offset by negative security selection and asset allocation.
- Asset allocation was the primary detractor over the quarter, but was offset by positive duration impact, security selection and regional allocation.
- Security selection within industrial sectors such as communications, consumer non-cyclicals and consumer cyclicals detracted the most, which were partially offset by banking and insurance.
- Security selection within banking, consumer non-cyclicals, consumer cyclicals and technology contributed over the quarter.
- An overweight to "other" financials and an allocation to cash detracted in December and Q4 given the outperformance of global IG corporates. Over the quarter, an overweight to banking was also a detractor.
- The allocation to high yield detracted modestly given the underperformance of high yield in December. In contrast, the allocation to high yield was a contributor in Q4 as high yield outperformed significantly in October.
- The fund's positioning remained largely unchanged over the month. We took profits in energy and increased consumer non-cyclicals modestly. The fund's largest overweights remain to banking and energy.
- Over the quarter, we added to banking given attractive valuations while reducing energy and communications which outperformed the overall global IG corporate index over the quarter.

Outlook

- We are remaining overweight credit risk as technicals remain supportive and valuations are still attractive despite the tightening over Q4. However, we are maintaining liquidity with 7% in cash, which we can deploy as we see attractive new issues.
- Macro uncertainty remains elevated given central bank liquidity withdrawal and slowing growth.
- Fundamentals remain healthy given strong balance sheet and liquidity positions of issuers. Although margins have compressed, they remain high.
- Dispersion across issuers and sectors remain elevated, which presents opportunities to add value given our strong focus on security selection.
- We remain constructive on the banking sector given attractive valuations, strong profitability in a rising rate environment and liquidity.
- The energy sector continues to be well supported both fundamentally and technically. However, we have trimmed exposure given outperformance but maintain an overweight to energy.
- We also like communications, which is attractive from a sustainable perspective driven by the positive impact from connectivity in addition to being fundamentally attractive given the deleveraging trajectory. Despite outperformance, we like communications as a defensive sector during a cyclical downturn.
- On the other hand, defensive sectors such as healthcare, pharmaceuticals and food and beverage offer limited value. We continue to be selective within consumer cyclicals considering macro uncertainty.

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

Calendar year performance (%)

Year	Fund	Target	Comparator
2022	-15.4	-14.1	-13.9
2021	-0.7	-0.8	-1.0
2020	9.6	8.3	8.2
2019	13.4	12.5	11.1
2018	-1.9	-0.5	-1.8
2017	5.5	5.4	6.4
2016	6.5	5.7	5.4
2015	-1.1	-0.1	-1.0
2014	6.2	7.5	5.7
2013	0.8	-0.4	0.3

Source: Schroders, as at 31 December 2022. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares. Please see factsheet for other share classes. The target benchmark is Bloomberg Barclays Global Aggregate - Corporate USD Hedged index and comparator is Morningstar Global Corporate Bond USD 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.

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**: 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.
- **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.
- **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.
- **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.
- **High yield bond risk**: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- **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.
- **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.

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