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Schroder ISF* EURO Corporate Bond

Fund Manager: Patrick Vogel | Fund update: December 2022

Performance overview

- Bond yields were rising in December, reflecting a hawkish tone from the central banks.
- The Federal Reserve (Fed) and Bank of England both enacted rate hikes, while the Bank of Japan announced a modification to its yield curve control policy. The ECB maintained its hawkish position.
- The US 10-year yields rose from 3.61% to 3.88%, with the two-year rising from 4.34% to 4.42%. Germany's 10-year yield increased from 1.93% to 2.57%. The UK 10-year yield increased from 3.16% to 3.67% and 2-year went up from 3.26% to 3.56%.
- High yield and investment grade delivered positive excess returns vs. government bonds, as euro spreads tightened in the month.
- However, as yield rose total returns for European investment grade US and euro High Yield, and US investment grade were negative.
- The US dollar rally continued to slow with the dollar index finishing the year higher than 2021.

Drivers of fund performance

- The fund delivered a negative performance and outperformed its benchmark.
- The fund's overweight positioning and security selection in real estate detracted, followed by security selection in energy. The latter's underperformance was driven by energy prices.
- On the other hand, security selection in senior banking and media was positive.

Portfolio activity

- After the very strong returns in November, the global credit market gave back some of those gains in December, driven by rising yields
- Portfolio activity was low due to reduced liquidity.
- The fund remains tilted towards defensives, cyclicals and financial institutions. We still believe financials have further to go as fundamentals are solid.
- We expanded the portfolio's AAA-rated names, particularly in sovereigns, in order to have flexibility to participate in new issues in January. We continue to remain overweight to BBB names while slightly reducing our holdings.
- High yield holdings were also reduced.

Outlook/Positioning

- Credit spreads were largely tighter with the exception of US high yield, but government bond yields were higher, reflecting some market disappointment at the hawkish tone from some central banks, despite mounting evidence of slowing economic growth.
- The new year begins with the global credit markets in much better shape, with overall yields having been re-charged during a very painful correction in 2022.
- Volatility is likely to persist, but we see much better opportunities from allocating investment capital globally, more potential from sector and issuer selection, such as in banking and real estate, improving coupons, and we are much closer to the end of central bank tightening than the beginning.
- In all, we think that bonds, and credit in particular now offers a very good deal for investors in 2023.

Calendar year performance (%)

	A Acc	I Acc	Target**
2022	-16.4	-15.6	-13.9
2021	-1.2	-0.2	-1.0
2020	4.6	5.6	2.6
2019	8.8	9.9	6.3
2018	-2.9	-1.9	-1.1
2017	4.6	5.6	2.4
2016	5.8	6.9	4.8
2015	0.7	1.8	-0.4
2014	8.8	9.9	8.3
2013	4.0	5.0	2.4
2012	12.8	14.1	13.0

Source: Schroders, as at 31/12/2021. All performance net of fees (where applicable), NAV to NAV (bid to bid), EUR. ** ICE BofA Euro Corporate Index.

- Past performance is not a reliable indicator of future results. The value of investments and the

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

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. 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.

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 and less developed markets: The fund may invest in emerging and less developed markets. Investing in emerging and less developed markets is subject to greater risks than investing in securities of developed countries such as ownership and custody risks, political and economic risks, market and settlement risks, liquidity and volatility risk, legal and regulatory risks, execution and counterparty risk, and currency risk, which may adversely affect the net asset value per share of the fund and investors may as a result suffer losses.

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.

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