

# Schroder Fixed Income Fund (Wholesale Class)

## Portfolio Review

---

In March, the portfolio returned -1.8% (after fees), behind the benchmark by 0.3%. This takes our one-year returns to 2.0% (after fees), ahead of the benchmark by 0.5%. At March end, the portfolio is yielding 5.4% with an interest rate duration of 5.0 years.

## Market Outlook and Positioning

---

March was defined by the re-emergence of energy-driven inflation risk as the key macro variable. Attention centred on the escalation in the Middle East and, in particular, the potential for disruption to energy infrastructure and shipping routes through the Strait of Hormuz. As oil prices moved sharply higher, market sentiment shifted from complacency toward concern, with investors increasingly viewing the shock as more persistent than initially priced and more akin to a supply-side inflation impulse than a demand-led slowdown.

Against this backdrop, central bank communication turned more cautious and, in places, more hawkish. The Federal Reserve held policy rates unchanged but lifted its inflation projections and emphasised the uncertainty created by geopolitical developments. While official guidance continued to imply only limited cuts over the medium term, market conviction in that path weakened materially and pricing shifted toward a higher-for-longer outcome, including a greater risk that easing would be delayed. Rates markets responded forcefully: global bond markets sold off sharply, led by the front end as investors reassessed the likelihood of further tightening and the time required for inflation to return to target. In the United States, two-year Treasury yields surged as markets briefly assigned a meaningful probability to a Fed hike later in 2026, while ten-year yields pushed into the mid-4% range amid large, headline-driven intraday swings.

In Australia, markets focused on the February CPI release and the trimmed-mean profile. Although headline inflation was distorted by fuel and electricity subsidies, we see underlying momentum as firm enough to keep a May RBA hike in play, reinforcing the sensitivity of local markets to both global rate moves and domestic inflation surprises. Australian government bonds followed the global move, with three- and ten-year yields approaching the high-4s to around 5%, reflecting the combination of RBA tightening expectations and global spillovers. Across Europe, the UK and Japan, central banks delivered a broadly consistent message: policy would remain restrictive until energy-led inflation risks were clearly contained. Curve dynamics were volatile, with periodic flattening as front-end rates absorbed most of the repricing.

Credit markets were more resilient than rates. Investment-grade spreads widened only modestly, broadly retracing to late-2025 levels despite the scale of the sell-off in government bonds. That resilience reflected the support from higher all-in yields and the absence of broad-based stress indicators, even as geopolitical headlines drove frequent shifts in risk sentiment. Within the market, however, dispersion increased meaningfully, with BBB credit underperforming, appetite for long-duration exposures weakening and investor demand becoming more selective. Australian credit at times lagged the

tightening seen offshore, as elevated domestic yield volatility reduced appetite for further spread compression. High yield markets came under greater pressure than investment grade, but stress remained well below crisis levels.

In summary, March 2026 highlighted that supply-side inflation shocks continue to dominate central bank reaction functions. The energy-driven repricing pushed yields higher and increased rate volatility, but credit held together - albeit with greater dispersion and more selective risk appetite. For fixed income investors, the month reinforced the value of being paid to hold quality income, maintaining disciplined duration exposure, and treating geopolitics as a genuine source of volatility rather than a transient headline to fade.

The Schroder Fixed Income Fund ended March with a short-duration bias relative to the benchmark, alongside differentiated country positioning. We continue to see a two-tailed outlook: a renewed energy-driven inflation impulse could push yields higher, while a shock that spills over into demand destruction could see longer-dated yields fall quickly. In this environment, we are maintaining a cautious stance and expressing views primarily through country and curve positioning. With supply-side inflation risks back in play, central banks are unlikely to ease policy pre-emptively, leaving front-end rates more exposed to repricing via delayed cuts or renewed hike risk. That said, markets such as Australia, Europe and the UK are already pricing around three rate hikes this year, suggesting much of a potential tightening restart is reflected in current valuations. A sharper growth slowdown remains a key risk, however, and could ultimately limit how far central banks are able to tighten. Reflecting this balance, we have begun adding long-duration exposure in markets where tightening looks more fully priced and valuations are more attractive, including Australia. We remain short duration in the US, Europe and Japan, where yields still look vulnerable to repricing higher on either higher inflation and/or additional central bank tightening being priced into markets. We have also increased inflation protection in both the US and Australia to help safeguard the portfolio against a more pronounced rise in inflation expectations.

March reinforced that credit can remain resilient even when rates sell off, as higher all-in yields can cushion returns. We remain constructive on investment grade; however, we have reduced overall spread risk and upgraded quality and structure to help preserve capital in an environment of firmer inflation and slowing growth. This includes an increased emphasis on higher-quality issuers within investment grade and a modest tilt up in rating where spreads do not adequately compensate for downgrade risk. We are also being more selective in BBB credit and long-duration exposures, where valuation and volatility can be less forgiving.

In Australia, we have maintained credit exposure but are mindful that elevated domestic yield volatility can limit the scope for spread compression. Accordingly, we are positioning Australian credit primarily for income (carry) rather than relying on spreads tightening further, while keeping liquidity high. We have also reduced our exposure to Australian RMBS following strong performance and in recognition of increased pressure on the housing market amid tighter RBA settings.

Globally, we have reduced exposure to US dollar-denominated assets, including US securitised credit, and moderated our European credit risk. We continue to hold credit protection across both US and European investment grade and high yield indices as a risk management overlay. Given ongoing pressure in high yield and its sensitivity to broader risk markets, we remain focused on higher-quality segments and use hedges selectively where valuations look less compelling relative to macro risks.

We have also reduced exposure to emerging market debt, given the risk that a stronger US dollar in risk-off conditions and higher global bond yields could weigh on performance.

Overall, portfolio positioning remains defensively tilted, underscored by a month-end cash position of 20% and credit protection of 10%. We are balancing a cautious duration stance with targeted country and curve positions, adding inflation protection where it offers effective diversification. In credit, we are prioritising quality and liquidity, reducing spread beta and long-duration exposures, and using index hedges to manage downside risk. Regionally, we have trimmed US dollar risk and moderated European credit exposure, while maintaining selective allocations in Australia where valuations are more attractive and carry remains supportive.

## Important Information

This document is issued by Schroder Investment Management Australia Limited (ABN 22 000 443 274, AFSL 226473) (Schroders).

This document does not contain and should not be taken as containing any financial product advice or financial product recommendations. This document does not take into consideration any recipient's objectives, financial situation or needs. Before making any decision relating to a Schroders fund, you should obtain and read a copy of the product disclosure statement available at [www.schroders.com.au](http://www.schroders.com.au), or other relevant disclosure document for that fund and consider the appropriateness of the fund to your objectives, financial situation and needs. You should also refer to the target market determination for the fund at [www.schroders.com.au](http://www.schroders.com.au). All investments carry risk, and the repayment of capital and performance in any of the funds named in this document are not guaranteed by Schroders or any company in the Schroders Group. The material contained in this document is not intended to provide, and should not be relied on for accounting, legal or tax advice.

Schroders does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this document. To the maximum extent permitted by law, Schroders, every company in the Schroders plc group, and their respective directors, officers, employees, consultants and agents exclude all liability (however arising) for any direct or indirect loss or damage that may be suffered by the recipient or any other person in connection with this document.

Opinions, estimates and projections contained in this document reflect the opinions of the authors as at the date of this document and are subject to change without notice. "Forward-looking" information, such as forecasts or projections, are not guarantees of any future performance and there is no assurance that any forecast or projection will be realised. Past performance is not a reliable indicator of future performance. All references to securities, sectors, regions and/or countries are made for illustrative purposes only and are not to be construed as recommendations to buy, sell or hold.

Telephone calls and other electronic communications with Schroders representatives may be recorded.