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Schroder ISF* Global Sustainable Convertible Bond

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Performance overview

- In January, the convertible bond market commenced the year on a positive note, exhibiting commendable upside participation. Following a pause in equity markets mid-month, convertibles demonstrated robust downside protection.
- The overall performance in January was characterised by a strong equity backdrop, with convertibles exhibiting above-average upside engagement.
- January was a very good month for the Dow Jones, which recorded an outstanding increase of 4.8%. This came after its poorest performance per year end since 2018 and its largest monthly percentage decline since September 2022. The S&P 500 increased by 2.8%, while the tech-heavy Nasdaq index ended the month on a plus of 1.7%.
- All three major indices experienced notable increases in January after Donald Trump took office as the 47th president of the US, indicating that his agenda, albeit controversial, is considered by investors as largely supportive of domestic business activity.
- On the other side of the Atlantic, the picture looks equally upbeat. The Euro Stoxx finished the last month on a plus of 8.2%, mainly driven by positive performance in Germany (Dax 9.2%) and France (CAC 7.8%). The Italian MIB was up 7.0%, while Spain's IBEX reported a gain of 7.1%. The UK's FTSE and Switzerland's SMI both stated positive performance figures for January.
- Asian stock markets, on the other hand, presented more of a mixed bag. The overall MSCI Asia ex Japan finished on a gain of 1.4%.
- The Hang Seng was up 1.2%. China's CSI 300 ended the month with a loss of -2.8%. Singapore stated some gains of 1.8%, while Taiwan was up 2.2%. In Japan, the Nikkei was down by -0.8%.
- The global MSCI equity index gained 3.4% in January and the FTSE Global Focus hedged in USD tracked well with a monthly gain of 2.2%.

Drivers of fund performance

- The fund slightly underperformed its benchmark in January.
- Parsing regional return contributions shows our overweights in Asia and Japan paid off this month. On the other hand, underweighting Europe cost us in terms of contribution to return.
- On a sector level, our overweight to IT cost us relative performance. On the flipside, our overweight to Consumer Discretionary as well as our underweight to Utilities both added to relative performance.
- **Rheinmetall** and **Siemens** were among the largest detractors in January. Conversely, our overweight in **Alibaba** and **Snowflake** as well as our underweight in **PG&E** added to relative performance.

Portfolio activity

- The stock market's advance in January resulted in an automatic increase in equity exposure for convertibles on both an absolute and relative basis.
- We took some profits in positions such as **Schneider Electric** and **Amadeus IT,** among others, using the proceeds to add to more balanced names such as **Miniso** and **Core Scientific**.
- In terms of regional positioning, we have begun strategically reducing our equity exposure underweight in the US within pockets of cheapness. We continue to hold overweights in Asian and Japanese convertibles, while remaining underweight in European names.
- At the sector level, we continue with an overweight to IT, Healthcare, and Communications.
- The latest market rally in the US has resulted in more expensive valuations for US convertibles. This is the case for Japanese convertibles as well. Other convertible regions continue to trade well below fair value.
- Global convert issuance started the year on a very weak note with only USD 3.4 billion of new paper, well below the historical average for January and for every other month, for that matter.

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

Outlook

- US exceptionalism has been a key driver of global financial markets in recent years, and our forecasts imply that the "Trump trade" will deliver even more outperformance in the months ahead. However, with the new Administration comes even greater uncertainty than usual about the global economic outlook, meaning that markets are probably in for a bumpy ride. Against this backdrop, we expect market performance to broaden out from recent winners.
- The S&P 500 is looking expensive but valuations away from the mega caps and outside of the US appear more reasonable. We think there is potential for markets to broaden out further in the US, particularly given Trump's focus on deregulation and corporate tax cuts.
- Valuations in Europe are more attractive, and sentiment is almost universally negative towards the region. With elections in Germany (which could prompt a shift in fiscal policy) and rate cuts from the ECB, we believe there is potential for the market to do better in 2025.
- In emerging markets, valuations excluding India and Taiwan are broadly cheap. Much of the uncertainty is priced in and market stress may provide opportunities to add to exposures in the coming months.
- Despite short-lived setbacks here and there, global stock markets remain convinced of an ongoing Goldilocks scenario. Inflation has decreased significantly from highs, energy and oil prices remain subdued despite international conflicts, and the US labour market shows limited signs of weakness in line with a soft-landing scenario.
- While we continue to rate the global economic picture as non-sustainable in the long-run, it is difficult to spot concrete triggers of a potential reversal.
- Due to their in-built equity exposure, convertibles increase in value as the underlying stock increases. Simultaneously, when the underlying stock drops, the convertible loses some value but still offers protection thanks to their bond floor, the bond part of the convertible.
- Given that a significant part of our convertible universe remains balanced to slightly defensive, we remain constructive on our asset class and believe that a good degree of protection against equity-market losses is inbuilt into the asset class. We have seen efficient downside protection in the volatile summer months, and we are confident that convertibles will also protect in case of future stock market setbacks.
- In addition, parts of the convertibles market remain cheap and continue to trade under their fair value. Given the performance in global equity markets since 2023, this looks like a historical anomaly.
- Finally, we are looking at a highly convex asset class, with a good 50% equity-loss protection, that has started to pay a handsome running yield and is trading at a discount. Still, our favourite asset class remains overlooked and 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
2024	4.2%	6.2%	6.4%
2023	5.2%	6.7%	7.6%
2022	-18.8%	-17.6%	-15.5%
2021	-1.9%	-0.4%	-0.9%
2020	14.7%	16.4%	16.1%
2019	7.7%	9.2%	8.2%
2018			
2017			
2016			
2015			

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), EUR, as at 30/12/2024. The fund's performance should be assessed against its target benchmark being to exceed the customised blend of 2/3 FTSE Global Focus (EUR hedged), 1/3 FTSE 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.

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