

## Schroder ISF\* US Dollar Bond

Fund Manager: Lisa Hornby and Neil Sutherland | Fund Update: Q1 2025

## Market overview

- The quarter started out with Treasury yields moving higher as a reaction to the perceived inflationary impacts from the policies of the new administration. After peaking in mid-January, the yields began to fall as the market interpreted a more measured approach to tariffs after initially signalling as much as 25% tariffs on Canada and Mexico. Over February and March, growth expectations were questioned given the material decline in consumer sentiment with the Conference Board Consumer Confidence disappointing at an 8-month low of 98.3 in February; well below consensus, and a 7-point drop (the biggest one-month drop since August 2021) from the prior reading. In March, the University of Michigan Sentiment plummeted to 57.9, the lowest since November 2022. During the last part of the quarter volatility spiked as 25% tariff on imported autos were announced and as “Liberation Day” neared, a strong bid for Treasuries and wider corporate spreads occurred and equity markets sold off.
- For the quarter, spreads for the Bloomberg U.S. Corporate Index were wider by 14 basis points (bps) ending at 94 bps. Excess returns to duration-neutral Treasuries for corporates were negative (-85 bps) with utilities the worst (-154 bps) given the headlines surrounding the LA fires, followed by industrials (-94 bps) and financials (-52 bps). Among the broad sectors of the Bloomberg Aggregate Bond Index, agency MBS (-7 bps) were better on a duration-neutral basis and sovereigns (-29 bps) were modestly ahead of corporates (in excess return terms) given questions about American exceptionalism. Tax-exempt municipals (-438 bps) were much weaker because of heavy new issuance (\$111bn for Q1, 2nd only to Q12007) and added rate volatility. Treasuries (as measured by the 10-year tenor) were lower by 37 basis points over the period, however, down nearly 58 bps from the peaks in January as softening tariff rhetoric reduced inflationary fears before sparking a risk-off tone at the end of March on renewed tariff threats and a flight to quality.

## Drivers of fund performance

- The portfolio outperformed the benchmark, gross of fees driven by duration and curve, over the first quarter.
- Duration impacts were positive due to the long relative duration with rates falling. Curve also contributed from the underweight to the long end of the curve with rates steepening.
- Asset allocation was negative as a result of the overweight to gov-related, consumer cyclicals and financials.
- Issue selection was also slightly negative due to specific treasury allocations as well as industrials.

## Outlook/positioning

Risks surrounding tariffs and inflation impacts are front and center for market participants. The markets have remained volatile, but this is hardly surprising given continued headwinds regarding tariff announcements in early April and still significant uncertainty around growth in the US economy. Despite the move wider in risk we do not yet see this as a compelling opportunity to re-risk portfolio given valuations remain full especially in the context of moderating growth and acute policy uncertainty.

*Past performance does not predict future returns. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.*

## Calendar year performance (%)\*

Year	Fund	Target	Comparator
2024	1.8	1.3	1.8
2023	5.4	5.5	4.7
2022	-16.0	-13.0	-9.8
2021	-1.4	-1.5	-1.5
2020	10.3	7.5	6.9
2019	9.3	8.7	7.7
2018	-1.6	0.0	-1.1
2017	4.4	3.5	3.6
2016	2.8	2.7	2.2
2015	-1.2	0.6	-0.7

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

Source: Schroders, as at 31 December 2024. 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 US Aggregate Bond Index and comparator is Morningstar USD Diversified Bond. The fund's investment universe

is expected to overlap to a limited extent with the components of the target benchmark.

## Investment Objective

The Fund aims to provide income and capital growth in excess of the Bloomberg US Aggregate Bond (TR) index after fees have been deducted over a three to five year period by investing in fixed and floating rate securities denominated in USD.

## 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.
- **Concentration risk:** The fund may be concentrated in a limited number of geographical regions, industry sectors, markets and/or individual positions. This may result in large changes in the value of the fund, both up or down.
- **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 share class:** 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.
- **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.
- **Issuer risk:** The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following country: United States of America.
- **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 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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