

## Schroder ISF\* US Dollar Bond

Fund Manager: Lisa Hornby and Neil Sutherland | Fund Update: Q4 2024

**Market overview**

- The fourth quarter was notable not only for Donald Trump's presidential victory but also for Republicans taking majorities in both the House and Senate. The "red sweep" resulted in a firm risk-on tone and higher yields as the market priced in expectations for tax cuts and less regulation. Data released over the period showed a resilient economy with employment still strong and inflation moderating, albeit elevated. Although there was a 25 basis-point cut in December (and another 25 basis-point cut earlier in the quarter), the comments by Fed Chair Powell were more hawkish than anticipated as they indicated they were slowing the pace of future cuts. Corporate new issue supply for the quarter was heavy however the larger story was that for the year investment grade corporate supply had set a new annual record (excluding 2020). This is a testament to the strength of demand given that spreads are now at or near historical tightness and despite the heavy issuance.
- For the quarter, investment-grade spreads, as measured by the Bloomberg Corporate Bond Index, were tighter by 9 basis points (bps) ending at 80 bps. At one point the spreads had been as tight as 74 bps before receding during the last few weeks of the year as participation in the market ebbed. Among investment-grade corporates, utilities (+116 bps) were best in excess return to Treasury terms followed by industrials (+89 bps) and financials (+62 bps). Among the broad sectors of the Bloomberg Aggregate Bond Index, agency MBS (-13 bps) were notable underperformers because of elevated interest rate volatility. Tax-exempt municipals outperformed Treasuries (+201 bps) and corporates on a duration neutral basis despite elevated supply. Treasury yields were materially higher with the ten-year tenor up 81 bps however shorter rates (i.e. 2-year tenor) up 57 bps resulting in a steeper yield curve.

**Drivers of fund performance**

- The portfolio performed in-line with the benchmark over the quarter, gross of fees, due to contributions from security selection and asset allocation being offset by curve and duration.

- Asset allocation was driven from the overweights to financials and industrials with some detractions due to CDS protection.
- Issue selection was also positive with contributions driven by sovereigns mostly.

**Outlook/positioning**

- Looking forward to the new year there are several unknowns given the new administration. Much of the rhetoric to this point (higher tariffs and less regulation) has been interpreted as inflationary, however, it remains to be seen how much the new administration can accomplish with only slim advantages in both houses. With expensive valuations in many sectors, the portfolio is lower in risk than might be expected given the health of the economy. We continue to find value in the securitized asset class, generally agency MBS, as valuations are more attractive.

*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

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

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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

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- **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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