Schroders

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Schroder ISF* US Dollar Bond

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

Market overview

- January started out with Treasury yields moving higher on fears of inflationary impacts from the policies of the new administration. The trend was reversed mid-month with the release of Core CPI which showed prices rising less than anticipated (+0.2% vs 0.3% prior and 0.3% anticipated). Treasuries rallied further as the market began to interpret a more measured approach to tariffs from the President, after initially signaling as much as 25% tariffs on Canada and Mexico.
- By month-end, Treasuries had recovered completely from the start of the year as a modest flight to quality emerged following news from China regarding AI which rattled equity markets.
- For the month, spreads as measured by the Bloomberg Corporate Bond Index were tighter by 1 basis point (bp) ending at 79 bps. This is notable given the elevated supply early in the period (January 7th was the sixth all-time by volume and January 2025 was a record for January) and uncertainty regarding the new administration. Investment grade corporates (+13 bps) out-performed duration neutral Treasuries given the modest risk-on tone with financials (+24 bps) and industrials (+16 bps) notably ahead of utilities (-43 bps) which trailed given the headlines in the wake of the fires in Los Angeles. Among non-corporate sectors as represented by the Bloomberg Aggregate Bond Index, securitized assets (+5 bps) were behind corporates on an excess return basis given the elevated rate volatility. Initially, treasury yields were higher (10-year tenor up 22 bps by mid-month) only to end the month lower by 4 bps. Tax-exempt municipals could not keep up with the rally in Treasuries during the latter half of the month and under-performed duration-neutral Treasuries (-51 bps), partially a result of heavy supply ($36 billion, 20% more than January last year) and despite inflows from the sector.

Drivers of fund performance

- The portfolio outperformed the benchmark, gross of fees, in January.
- Asset allocation was positive as a result of the underweight to treasuries and overweight to financials.
- Issue selection was negative due to allocations to specific treasuries.
- The net curve and duration impacts were positive due to the long duration positioning and rates falling over the month.

Outlook/positioning

- While the outlook broadly looks favorable for the coming year with nominal growth expected to be in the 4.5-5% this dynamic is fully extrapolated in expectations. In contrast to the previous two years when US growth significantly outperformed very modest expectations the hurdle this year is far higher with consensus already expecting 2% plus GDP growth. These muted expectations enabled us to get two 20% plus years in the S+P as growth and earnings significantly outpaced muted expectations. With expensive valuations, market vulnerabilities remain high if expectations underperform.

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.

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

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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