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Schroder ISF* US Dollar Bond

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

Market overview

- After April's elevated volatility, trade tensions eased in May which resulted in a risk-on tone. Positive data released early in the month (ISM Services and Core CPI) were also supportive on the back of positive trade announcements of varying degrees between the U.S. and its trading partners (England, China, Europe). Japan also saw materially higher yields requiring intervention and reminding participants of the difficulties in controlling yields through policy rates.
- The risk-on tone was strong enough to shrug off the Moody's downgrade of US credit, however, concerns regarding the growing US budget deficit pushed US Treasury yields higher and weighed on the demand for USD assets.
- For the month, spreads as measured by the Bloomberg U.S. Corporate Bond Index were tighter by 18 basis points (bps) ending at 88 bps. It was the largest monthly tightening since October 2023 which decreased 25 bps.
- Treasuries had notably negative absolute returns given the higher yields across the curve, with the 10-year tenor up 24 bps.

Drivers of fund performance

- The portfolio outperformed the benchmark, gross of fees driven mostly by asset allocation in May.
- The strong asset allocation was as a result of overweights to gov-related, energy and banking sectors mostly, although most corporate overweights contributed.
- Issue selection was negative due to communications, REITs and gov-related positions.
- Duration impacts were negative for the month due to the relative long duration with rates rising.

Outlook/positioning

- Decisions by the federal court at month-end remind us that the unknowns related to tariffs will likely continue and result in elevated volatility going forward. However, with investment-grade spreads at or near the levels prior to Liberation Day, there is less margin for error as the market rebounded quickly from last month's selloff. The portfolio remains overweight risk assets, however, with a notable contribution from non-corporates such as taxable municipals and securitized assets.

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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