

Schroder ISF* Global Corporate Bond

Fund Managers: Rick Rezek & Alix Stewart | Fund update: March 2024

Market Overview

- Global investment grade (IG) corporate bonds posted positive returns over the month. The surprisingly dovish testimony by US Federal Reserve (Fed) Chairman Jerome Powell helped fuel the rally along with a stronger than expected Non-Farm Payroll (NFP).
- The fund outperformed the benchmark over the month and quarter while posting positive total returns in March.

Drivers of fund performance

- Security selection was the main contributor to relative returns. Impacts from curve and duration were muted.
- Security selection was most positive in banking, but there were also contributions from all corporate sub-sectors.
- Asset allocation was flat with small contributions from communications and energy offset by our overweight to treasuries.
- In terms of quality, an allocation to high yield (HY) contributed as HY outperformed IG.
- Over the month, we increased our exposure to consumer non-cyclical, communications and T-bills. We also reduced our exposure to cash, banking and technology.
- The fund's sustainability metrics remained largely unchanged, and the fund's sustainability score as measured by SustainEx remains better than that of the benchmark.

Outlook/positioning

- We believe global IG corporate bonds remain an attractive investment opportunity even as spreads have tightened as demand remains high.
- We remain comfortable being long credit risk given attractive yields and the resulting strong demand for the asset class.
- Foreign demand for yield continues to be robust, and overall demand remains exceptionally strong.
- Earnings remain above expectations. Leverage metrics also remain stable, although there has been some slight deterioration in interest coverage driven by higher rates.

- We believe that technical factors are supportive for the asset class. Yields for the asset class remain attractive, which is drawing consistent foreign investors into US IG. Supply during the first quarter has been very heavy, but demand has been heavier. Inflows into funds and ETFs continue to be strong and appear yield driven.
- The fund is overweight the banking sector given attractive valuations and favourable assessments driven by robust capital, high liquidity, strong earnings and asset quality. US bank spreads are the most attractive across market sectors, and Super Regionals remain fairly wide to GSIBs.
- We see selective opportunities in REITs and continue to be overweight energy given attractive spreads and strong balance sheets.
- On the other hand, defensive sectors such as healthcare, pharmaceuticals and food and beverage offer limited value.

Calendar year performance (%)

Year	Fund Net	Target	Comparator
2023	9.3	9.1	7.7
2022	-15.4	-14.1	-13.9
2021	-0.7	-0.8	-1.0
2020	9.6	8.3	8.2
2019	13.4	12.5	11.1
2018	-1.9	-0.5	-1.8
2017	5.5	5.4	6.4
2016	6.5	5.7	5.4
2015	-1.1	-0.1	-1.0
2014	6.2	7.5	5.7
2013	0.8	-0.4	0.3

Source: Schroders, as at 31 December 2023. 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 Global Aggregate - Corporate USD Hedged index and comparator is Morningstar Global Corporate Bond USD Hedged.

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 back the amount originally invested.

Investment Objective

The Fund aims to provide income and capital growth in excess of the Bloomberg Global Aggregate – Corporate index hedged to USD after fees have been deducted over a three to five year period by investing in fixed and floating rate securities issued by companies worldwide.

Risk considerations

- **Contingent convertible bonds:** The fund may invest in contingent convertible bonds. If the financial strength of the issuer of a contingent convertible bond falls in a prescribed way, the value of the bond may fall significantly and, in the worst case, may result in losses to the fund.
- **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.
- **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.
- **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.
- **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. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.
- **Interest rate risk:** The fund may lose value as a direct result of interest rate changes.
- **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.
- **High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- **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.
- **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.

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