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Schroder ISF* EURO Corporate Bond

Fund Manager: Patrick Vogel | Fund update: August 2025

Market overview

- Spreads in the euro investment grade (IG) market widened during August. The first half of the month was characterised by low trading volumes as the US postponed new tariffs on China for a further 90 days.

- Subsequently, there was an uptick in primary market activity while risk sentiment was adversely impacted by renewed political turmoil in France. Prime Minister Bayrou called a vote of confidence for 8 September after his plans to tackle the country's widening deficit faced strong opposition in parliament, triggering fears that the government would collapse.

- Significantly, book coverage ratios for new issues in the euro investment grade market fell well below the usual levels of 4-5 times oversubscribed as buyers became increasingly cautious on valuations and spreads widened accordingly, with most institutional investors remaining on the sidelines.

- Eurozone economic indicators continued to highlight a trend of improvement with the purchasing managers index (PMI) for August highlighting a pick-up in business activity across the manufacturing and services sectors. The survey was the strongest since May last year, registering its eighth consecutive monthly gain.

- This strengthened the prevailing view that the European Central Bank (ECB) would leave interest rates unchanged at its September meeting, as investors scaling back expectations for any further rate cuts with the ECB's programme of monetary easing increasingly likely to have run its course.

- In government bond markets, yield curves steepened in both the US and Europe. The shorter end of the US Treasury market performed well in response to weaker labour market data and a softer inflation print with guidance from the Federal Reserve indicating a cut in interest rates is increasingly likely in September. Longer-dated bonds weakened on concerns around the fiscal spending levels implied by last month's budget bill, as well as concerns about the Fed's independence being compromised.

- European government bond yields rose steadily through August, with benchmark 10-year French government bond yields sharply higher on growing political instability. The rise in longer-dated yields across Europe reflected mounting concerns about the sustainability of fiscal deficits.

Drivers of fund performance

- The Fund outperformed its benchmark after fees during August.
- Our underweight exposure to senior banking issues was the primary contributor, particularly a long standing underweight in major French banks where spreads widened significantly during August on elevated political risk.
- An underweight allocation to telecommunications and consumer goods was additive.
- Security selection in senior banking and automotives also had a positive impact on active returns.
- Security selection in the utility sector and exposure to the leisure sector detracted.

Portfolio activity

- Portfolio activity was limited during August as there were few investment opportunities in the primary market that offered a sufficiently attractive yield.
- Although we remain cautious on cyclical sectors, we added a new holding in a major copper and iron ore mining group with a single-A credit rating on relatively low leverage with substantial free cash flows.
- We also purchased a holding in a specialist US insurer group owned by a leading private equity investor. Although the group's investment portfolio is focused on less liquid alternative assets, the bonds are secured and in the safest segment of the capital structure while offering an attractive credit spread.
- On the disposals side, we sold the holding in a Belgian pharmaceutical company as while the research and development unit is located in Europe, its main market is the US where exposure to trade tariffs has elevated credit risk.

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

Outlook/Positioning

- In Europe, the economic environment continues to improve as tariff uncertainty declines, while the ECB has indicated that they are not expecting to cut interest rates further.
- Furthermore, Germany's easing of the 'debt brake', alongside the recent announcement of a €500bn infrastructure and defence fund, has increased optimism within the manufacturing and industrial sectors. Looking ahead, the combination of higher fiscal spending and more accommodative monetary conditions should continue to underpin a recovery in eurozone economic activity.
- Inflation is expected to remain in line with the ECB's medium-term target of 2% as lower energy costs, subdued services sector inflation and the weaker US dollar result in a relatively benign backdrop.
- We also expect corporate fundamentals to remain stable and the default rate to stay low.
- However, we are mindful that credit spreads at index level measured over government bonds are expensive relative to historic levels. We have a strong emphasis on quality, reducing exposure to high yield credit and within the investment grade market increasing the allocation to A-rated and AA-rated securities.
- As a tactical measure we have increased exposure to short-dated sovereign debt offering an attractive carry over cash.
- With new issuance is expected to pick up in September, any widening of credit spreads should present investment opportunities to reinvest into credit markets.

Calendar year performance (%)

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.

	A Acc	I Acc	Target**
2024	6.0	7.0	4.7
2023	9.7	10.8	8.0
2022	-16.4	-15.6	-13.9
2021	-1.2	-0.2	-1.0
2020	4.6	5.6	2.6
2019	8.8	9.9	6.3
2018	-2.9	-1.9	-1.1
2017	4.6	5.6	2.4
2016	5.8	6.9	4.8
2015	0.7	1.8	-0.4

Source: Schroders, as at 31/12/2024. All performance net of fees (where applicable), NAV to NAV (bid to bid), EUR. ** ICE BofA Euro Corporate Index.

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.

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.

Currency risk / hedged shareclass: 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.

Emerging and less developed markets: The fund may invest in emerging and less developed markets. Investing in emerging and less developed markets is subject to greater risks than investing in securities of developed countries such as ownership and custody risks, political and economic risks, market and settlement risks, liquidity and volatility risk, legal and regulatory risks, execution and counterparty risk, and currency risk, which may adversely affect the net asset value per share of the fund and investors may as a result suffer losses.

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.

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. 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.

Important information