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| Schroder ISF\* EURO Credit Conviction Short Duration  Fund Manager: Patrick Vogel | Fund update: March 2025 |

Performance overview

* European investment corporate bonds delivered a negative total return over the month. However, excess returns over government bonds were positive, as credit spreads widened less than bund yields.
* March saw a significant change in the global macroeconomic landscape. US exceptionalism continued to be challenged as heightened policy uncertainty led to a sharp fall in sentiment and raised concerns of recession. Meanwhile, Germany’s fiscal regime change drove a much-improved reflationary outlook across the eurozone.
* Germany’s parliament approved plans by incoming Chancellor Friedrich Merz to loosen borrowing limits, exempting spending on defence and security from Germany's strict debt rules. It also enabled the creation of a €500 billion infrastructure fund designed to run for the next 12 years.
* German bunds bore the brunt of the ensuing sell-off across the eurozone, with yields recording their biggest daily jump since Germany’s reunification in 1990 on the initial announcement (yields move inversely to price). The yield curve steepened, with longer dated bonds rising in anticipation of higher borrowing costs in the future, while shorter maturities were supported by current expectations of easier monetary policy conditions. The European Central Bank (ECB) cut its main interest rate by 25 basis points as expected.

Drivers of fund performance

* The fund underperformed the benchmark Markit iBoxx EUR Corporate BBB 1-5 Year Index during March.
* Spread duration was longer than the benchmark, which detracted from Fund performance as credit spreads widened.
* Security selection in the real estate, subordinated insurance and utility sectors detracted.
* In contrast, our underweight allocation to the utility, and subordinated banking sectors was additive.

Portfolio activity

* As credit spreads widened, we took the opportunity to add back an element of exposure to financials. We purchased a subordinated bond issue from a leading French insurer, offering an attractive coupon.
* We also added several holdings in the banking sector, from an Austrian lender as well as a leading US investment bank.
* In the energy sector, we added a holding in an oil and gas exploration group focused on the North Sea. The company is a low-cost producer, benefitting from solid cash flows despite the lower oil price while its gas contracts are longer term and indexed. The issue was priced on an attractive credit spread.
* The fund remains underweight in cyclical sectors, although we added a holding in a German automotive and industrials supplier, which should benefit from increased expenditure on infrastructure and defence programmes.
* We continue to identify investment opportunities in emerging market bonds. Governments have been more fiscally disciplined, comparative to developed markets. In addition, from an income perspective the available coupon on emerging market bonds is attractive.
* As spreads widened, we reduced holdings in core government bond markets.

Outlook

* For some time now, the eurozone has struggled with declining competitiveness, high energy prices, a downbeat global manufacturing backdrop and, in the case of Germany, a lack of ambition to fiscally stimulate its economy.
* However, a combination of increased self-reliance for security reasons and a change in leadership appears to have heralded a change in Germany’s fiscal backdrop. The infrastructure and defence-led package announced by chancellor Merz represents a significant change in the level of proactivity among German policymakers. We believe this could stimulate further spending in other eurozone countries or facilitate joint debt or loan issuance at the EU level.
* However, since month-end and in a matter of days, the announcement on US trade tariffs all but eradicated the fiscally-stimulated optimism priced into eurozone government bond markets following the shift in Germany’s fiscal stance. If Europe does not retaliate aggressively with further tariffs, the growth hit would most likely come with a limited inflationary impact.
* When volatility increases credit opportunities rise, particularly where markets are mispricing a substantial change in outlook, and we are starting to see some of those appear. However, we remain very mindful of credit risk particularly in the light of the economic uncertainty. Going forward, a combination of positive carry and idiosyncratic opportunities should underpin total returns from European credit markets. For now, uncertainty persists, which makes an agile approach to portfolio construction crucially important.

*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 (%)

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| --- | --- | --- | --- |
|  | **A Acc** | **I Acc** | **Target\*\*** |
| 2024 | 6.7 | 8.2 | 5.4 |
| 2023 | 9.2 | 10.7 | 6.3 |
| 2022 | -16.7 | -15.7 | -14.8 |
| 2021 | -1.1 | 0.2 | -0.6 |
| 2020 | 4.8 | 6.1 | 3.0 |
| 2019 | 9.8 | 11.1 | 7.7 |
| 2018 | -3.6 | -2.4 | -2.0 |
| 2017 | 6.2 | 7.5 | 3.4 |
| 2016 | 6.8 | 8.1 | 5.4 |
| 2015 | 1.5 | 2.8 | -0.9 |

Source: Schroders as at 31/12/2024 net of fees (where applicable), NAV to NAV (bid to bid), EUR. \*\*iBoxx EUR Corp BBB. The fund's performance should be assessed against its target of exceeding the iBoxx EUR Corporates BBB (TR) 1-5 index. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark.

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 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.
* **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.

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