|  |
| --- |
|   |
| Schroder ISF\* EURO Credit Conviction Short DurationFund Manager: Patrick Vogel | Fund update: July 2025 |

Performance overview

* Despite ongoing uncertainty as investors awaited the outcome of trade negotiations, July was another positive month for credit markets. Spreads in the euro investment grade (IG) market tightened further, generating excess returns over government bonds.
* Following weeks of negotiations between the EU and the US, a baseline tariff rate of 15% on almost all EU goods entering the US was agreed, providing more clarity. The EU also committed to significant spending on US military equipment and energy.
* With investors preoccupied by renewed concerns over rising fiscal deficits, government bond yields rose in the US and across European markets. The German budget deficit for 2025 is forecast to increase substantially, funding increased defence spending and infrastructure investment, and is more front-end loaded than had been anticipated when borrowing limits were relaxed in the spring.
* The European Central Bank (ECB) kept interest rates unchanged for the first time in a year, with President Lagarde striking a surprisingly hawkish tone. Accordingly, investors scaled back expectations of further interest rate cuts. Despite uncertainty over trade tariffs, the eurozone economy unexpectedly expanded during the second quarter with signs of a recovery in consumer spending.
* Second quarter corporate earnings announcements in Europe were mixed. Results from the financial sectors and in healthcare were encouraging but cyclical industries, notably chemicals, energy and construction, are still struggling. In the consumer discretionary sectors, earnings guidance from leading auto manufacturers has been downgraded, reflecting the likely impact of US trade tariffs.
* As was the case in June, technical factors – namely fund flows into European credit markets - drove spread tightening, which was broad based across sectors with insurance and real estate among the outperformers. Inflows into euro-denominated IG credit remain focused on the shorter dated maturity segment as deposit rates have fallen in line the ECB interest rate cuts. In addition, Asian investors looking to diversify away from the US have been increasing exposure to higher yielding European credit.

Drivers of fund performance

* The Fund outperformed the benchmark Markit iBoxx EUR Corporate BBB 1-5 Year Index during July.
* Exposure to subordinated financials, particularly within the banking and insurance sectors, contributed to Fund performance as credit spreads tightened further. Our overweight exposure to senior financial services contributed as well.
* Off benchmark exposure to Romanian sovereign debt was also additive, as an end to political instability and a package of measures to address the fiscal deficit have averted the risk of a downgrade in the sovereign credit rating.
* Security selection in the healthcare, automotive, utility, energy and financial services sectors was additive.
* Our holding in a European payments company rebounded, after we had focused exposure on the short-dated bonds where spreads tightened over the month.
* Security selection in real estate sector and our underweight exposure to utilities and telecommunications detracted.

Portfolio activity

* Over the month we have reduced exposure to BBB-rated securities in the IG market. Given spread tightening, valuations at index level look vulnerable to some reversal should we see any softer economic data.
* We increased exposure to AA-rated securities over the month, and parked cash in Treasury bills and short-dated sovereign debt, awaiting suitable investment opportunities in credit markets.
* With less primary market activity in July, participation in new issues was limited. We added a holding in a German auto supplier, offering a high coupon on a private placement.
* In the utility sector, we added a holding in an energy group with assets across central and eastern Europe which came to the market on an attractive valuation relative to the European IG utility sector.
* On the disposals side, we took profits on our position in a US investment bank which we had purchased after the post ‘Liberation Day’ sell-off in early April. Subsequently, credit spreads have tightened significantly.
* We sold holdings in several leading European auto manufacturers given the downside risks from US trade tariffs.

Outlook

* The deal between the EU and the US provided some relief that the threat by the Trump administration to impose 30% tariffs had been avoided, with some sectors including aircraft and component suppliers securing an exemption. Furthermore, the combination of higher fiscal spending and more accommodative monetary conditions should underpin a recovery in eurozone economic activity. Although conditions in the manufacturing sector remain challenging, the latest eurozone PMI survey for July highlighted a further expansion in private sector activity. This improvement appears to be a response to the European Commission’s recent relaxation of fiscal rules, allowing for additional spending on defence.
* 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.
* Inflation is expected to decline further based on lower energy prices, as the recent spike in the oil price quickly dissipated, and the weaker US dollar.
* We also expect corporate fundamentals to remain stable and the default rate to stay low.
* Monetary policy should continue to provide some support for bond markets, although the ECB’s programme of interest rate cuts looks to have run its course.
* However, we are mindful that credit spreads at index level measured over government bonds have compressed over recent months.
* Any widening of credit spreads should present investment opportunities to reinvest into credit markets.
* Going forward a combination of carry and idiosyncratic opportunities should underpin total returns from European credit markets.

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 (%)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **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.

**Important information**

Marketing material for professional clients and qualified investors only. This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the “Company”). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A. These documents may be obtained in English, free of charge, from the following link: [www.eifs.lu/schroders](http://www.eifs.lu/schroders). Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative. For the UK, these documents can be obtained in English, free of charge, from the Facilities Agent Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU or at www.schroders.co.uk. Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time but we will publish our intention to do so on our website, in line with applicable regulatory requirements. The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the “SFDR”). For the UK only: This product is based overseas and is not subject to UK sustainable investment labelling and disclosure requirements. Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. Past Performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise. Schroders has expressed its own views and opinions in this document and these may change. Third party data including MSCI data is owned or licensed by the data provider and may not be reproduced or extracted and used for any other purpose without the data provider's consent. Third party data is provided without any warranties of any kind. The data provider and issuer of the document shall have no liability in connection with the third party data. The terms of the third party’s specific disclaimers, if any, are set forth in the Important Information section at [www.schroders.com](http://www.schroders.com). Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at [www.schroders.com/en/privacy-policy/](http://www.schroders.com/en/privacy-policy/) or on request should you not have access to this webpage. A summary of investor rights may be obtained from <https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/> For your security, communications may be recorded or monitored. Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority.