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

Performance overview

* Despite geopolitical headlines dominating news flow during June, with the conflict in the Middle East and a spike in oil prices driving market uncertainty, it was another positive month for credit markets. Spreads in the euro investment grade (IG) market tightened further, generating excess returns over government bonds.
* In the euro IG credit market, fund remain strong, focused on the shorter dated maturity segment which have attracted further inflows as the European Central Bank (ECB) has continued to reduce interest rates. In addition, Asian investors looking to diversify away from the US have been increasing exposure to higher yielding credit.
* Meanwhile, although concerns over an imminent recession remain low as monthly eurozone composite PMI (purchasing managers index) is still anchored above the expansionary threshold, growth throughout the region is still muted. So far, there is little sign of tariff-related inflation with the eurozone core consumer price index remaining steady at 2.3% in June. Significantly, the strength of the euro year-to-date against the US dollar appears to be offsetting any wider price pressures.
* As expected, the ECB cut interest rates to 2% in early June, while signalling that it is now near the end of its rate-cutting cycle. Accordingly, investors scaled back expectations for further rate cuts, with just one further reduction now anticipated during the second half of the year. Attention is now shifting away from monetary policy towards the potential impact from fiscal policy.
* In contrast to other sovereign markets, European government bond yields rose in June, notably in Germany, as investors awaited more clarity on forthcoming trade tariffs.

Drivers of fund performance

* The fund outperformed the benchmark Markit iBoxx EUR Corporate BBB 1-5 Year Index during June.
* Exposure to subordinated financials, particularly within the insurance sector, contributed to Fund performance as credit spreads tightened further.
* Stock selection in the interest rate sensitive real estate sector was additive, as spreads continued to compress aligning with another reduction in the ECB deposit rate.
* In the energy sector, exposure to hybrid securities and a BBB rated Norwegian exploration and production name made a positive contribution as conflict in the Middle East triggered a spike in the oil price.
* Exposure to Romanian sovereign debt was also additive, as the coalition government won a parliamentary confidence vote.
* Our holding in a European payments company detracted over the month, on exposure to merchants that carry a higher associated reputational risk.

Portfolio activity

* We increased exposure to the autos sector, acquiring a holding in a short-dated issue from a European manufacturer well positioned in the rapidly expanding electric vehicle market, which still carries a high yield credit rating.
* We continue to look for opportunities in emerging markets and acquired a higher yielding holding in a Latin American airline.
* We added to our holding in a leading European payments company, as we consider the credit risk associated with a limited number of its higher risk merchants to have been largely discounted. Irrespective of this risk, the business is cash generative which should underpin the credit rating.
* On the disposals side, we sold down several holdings in US investment banks, and in European finance houses. We also took profits on a subordinated insurance holding.
* Overall, the Fund remains underweight in cyclical sectors, telecommunications and in consumer goods. We continue to favour financial services and insurance, as well as the energy sector.

Outlook

* The immediate prospects for the eurozone economy are heavily contingent on the outcome of trade negotiations with the US, ,the impact of higher fiscal spending and more accommodative monetary conditions. Although conditions in the manufacturing sector remain challenging, the eurozone PMI is signalling potential expansion with the latest survey for June highlighting expansion across the manufacturing and services sectors. 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, with interest rates projected to stabilise around 1.75% by the year end.
* Bond markets have already responded sharply to the change in outlook. The market moves in recent weeks lead us to maintain a strong emphasis on quality and a generally cautious approach to investing in more cyclical sectors. While industrials should benefit from increased infrastructure and defence spending in Germany, this has already been largely discounted by investors.
* In addition, we are also looking to identify companies with business models that are mostly insulated from the ongoing trade uncertainty. We see idiosyncratic opportunities both in higher yielding issuers and single A-rated names.
* Overall, we remain very mindful of credit risk particularly in view of prevailing economic uncertainty and tighter credit spreads. 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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