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Schroder ISF* Global Credit Income

Fund Managers: Julien Houdain & Martin Coucke | Fund update: July 2025

Market overview

- Trade negotiations dominated news flow during July, while markets were also preoccupied by renewed concerns over fiscal deficits which saw global government bond yields rise.
- The US faced conflicting pressures from tariffs and fiscal policy. President Trump signed the 'Big Beautiful Bill' into law, with the net impact from tax reductions, increased spending on defence and border security and cuts to social security judged to be negative for the country's deficit.
- Concerns over central bank independence resurfaced, although President Trump later refuted speculation that Federal Reserve (Fed) Chair Powell's position was under threat. As expected, the Fed left interest rates unchanged (4.00-4.25%) while the market interpreted Powell's press conference as relatively hawkish.
- 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, with the EU also committing to significant spending on US military equipment and energy. Meanwhile, the European Central Bank (ECB) kept interest rates unchanged for the first time in a year, with President Lagarde striking a surprisingly hawkish tone.
- Credit markets posted further gains, outperforming government bonds. In the US, a constructive economic outlook and robust company earnings - which exceeded expectations particularly in cyclical industries - drove solid performance across sectors and ratings (both investment grade (IG) and high yield (HY)). June's payroll data and job opening report depicted a positive picture of the US labour market, while survey data extended further into expansionary territory.
- Euro denominated corporates equally produced positive total and excess returns as spreads compressed for the third consecutive month. Spread tightening was broad based across sectors, with insurance and real estate investment trusts (REITS) among the outperformers.

Drivers of fund performance

- The Fund delivered a positive return and outperformed the reference index during July, with credit strategies driving the outperformance.
- Exposure to US and European HY markets was a notable contributor to performance.
- An emphasis on US securitised bonds, particularly agency mortgage-backed securities (MBS), was additive.
- On a sector basis, holdings in banks and insurers performed well.
- Within our duration (interest rate risk) strategy, an underweight US stance was positive as Treasury yields rose.
- Our holding in a European payments company rebounded, after we had focused exposure on the short-dated bonds where spreads tightened over the month.

Portfolio activity

- We reduced the risk profile of the Fund, shortening duration in the UK and in the US.
- Following further compression in credit spreads, we also reduced the spread duration of the portfolio as a defensive measure to limit sensitivity to any pullback in the market and potential spread widening.
- We trimmed exposure to IG credit in both the US and European markets, while closing out our US HY credit default swap indices (CDX) position. Given the strong performance, valuations look expensive and vulnerable to some reversal should we see any softer economic data.
- Inflows during July were deployed to increase exposure to US agency MBS, with excess cash parked in short-dated Treasuries.
- In the new issue market, we added a holding in a global technology company, as well as a US mortgage REIT.
- We exited our holding in a US media group following the announcement of a refinancing.

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

- We also took profits on positions in several European banks, as well as a holding in a hybrid issue from a US pharmacy chain.
- The overweight allocation to subordinated financials has been maintained, with exposure focused on additional Tier 1 (AT1) bonds which offer higher yields.

Outlook/Positioning

- From a macroeconomic perspective, we continue to see a 'soft landing', where economic growth slows and inflationary pressures ease, as the likeliest outcome.
- Attention has turned more forcibly away from an easing of monetary policy to fiscal policy. In this environment, we are continuing to adopt a cautious approach to interest rate risk and prefer to identify tactical opportunities cross-market.
- In credit markets, we have become more cautious on valuation grounds, as spreads are now trading at quite low levels historically, making them less appealing at current prices.
- With August traditionally a quiet month in terms of both new issuance and trading volumes, we have adopted a more defensive stance favouring high quality short-dated bonds, and agency MBS given the spreads on offer and their low volatility.
- As new issuance is expected to pick up in September, any significant widening of spreads could present investment opportunities to deploy cash currently parked in short-dated Treasury bonds back into 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 (%)*

Year	A DisMF	I DisMF	BM1	BM2	BM3	BM4
2024	5.7	7.6	4.2	1.1	9.2	5.7
2023	9.5	11.0	9.7	9.6	14.0	10.5
2022	-12.7	-11.5	-14.1	-14.1	-12.7	-16.5
2021	0.9	2.3	-0.2	-2.9	1.0	-1.5
2020	6.6	8.0	7.9	10.4	7.0	5.9
2019	11.3	12.9	13.2	11.5	12.6	14.4
2018	-1.6	-0.3	-1.4	-3.6	-4.1	-4.6
2017	7.8	9.3	6.7	9.1	10.4	9.3
2016	-	-	-	-	-	-
2015	-	-	-	-	-	-

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), USD, as at 31/12/2024. Comparator benchmarks: 1. Bloomberg (Bbg) Multiverse ex Treasury A+ to B- USD Hedged, 2. Bbg Global Aggregate Corp TR, 3. Bbg Global **High Yield TR USD), 4. JP Morgan EMBI Global TR. Comparator** benchmarks included for performance comparison purposes and do not have any bearing on how the manager invests the fund's assets.

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. A reduction in the financial strength of the issuer of such bonds 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 markets & frontier risk**: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

- **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 chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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