

Schroder ISF* Global Credit Income

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

Market overview

- September was a positive month for bond markets overall, with yields across developed government bond markets falling, led by longer-dated bonds. Corporate bonds outperformed as markets focused on a broadly positive economic outlook, supported by lower interest rates.
- In the eurozone, the focus was on French politics, with Prime Minister Bayrou losing the confidence vote aimed at garnering support for the government's deficit reduction agenda. In acknowledgement of this 'political fragmentation' and 'weak fiscal record', rating agency Fitch downgraded France's sovereign rating from AA- to A+. The European Central Bank (ECB) kept policy rates on hold at 2% as expected. The inflation forecast was revised down further below the central bank's target of 2% and markets are now expecting interest rates to remain unchanged.
- In credit markets, US investment grade spreads tightened further during September to multi-decade tight levels. Increased supply over the month was well absorbed, underpinned by ongoing investor demand for yield amid a relatively constructive outlook for corporates.
- Credit spreads were also tighter across the euro and sterling-denominated investment grade markets, generating excess returns over government bonds. High yield bonds produced similar excess returns for the US and euro markets, although the sterling market lagged.

Drivers of fund performance

- The Fund delivered a positive return but underperformed the reference index during September.
- The main detractor was our curve steepening position, which was held in both the US and the eurozone. Although this position has delivered strong returns since initiating the trade, curves reversed some of their recent steepening trends during the month.

- Our underweight duration (interest rate risk) stance also detracted as yields fell.
- In credit markets, security selection made a positive contribution, focused on banks and insurers.
- However, this was offset by asset allocation, given the fund's defensive positioning in investment grade credit, as spreads tightened further.
- Exposure to euro-denominated high yield credit was additive.

Portfolio activity

- We increased US duration exposure mid-month following Fed's interest rate cut.
- Additionally, we closed our short German duration position as markets have fully priced in the end of the rate cutting cycle for the ECB.
- As a result, the fund's headline duration increased from 3.9 years at the end of August to 4.4 years.
- Asset allocation was largely unchanged, with excess cash allocated to covered bonds due to their liquid and defensive characteristics.
- At the security level, we added a holding in a new issue from a short-dated US mutual insurance company offering an attractive yield pick up over Treasury bonds of an equivalent maturity.
- In the secondary market, we added to several holdings in the European real estate sector.
- We rotated exposure to a European payments processing company, focusing on the issuer's more liquid, short-dated bonds.
- We also took profits on our holding in dollar-denominated bonds issued by a leading alternatives asset manager.

Outlook/Positioning

- As we move in the final quarter of 2025, we continue to be in an environment of slowing growth, albeit not dramatically. Our base case is for a soft landing,

although the risks around this remain skewed to the downside.

- For direction on interest rates, the US labour market will be key. For a Fed that has a dual mandate of maintaining ‘full employment’ – not to mention political pressure to ease policy - the growing risks to the downside in the labour market will accelerate the easing cycle, assuming inflation remains well behaved. Early signs are promising here.
- We do not envisage a sharp deterioration of the US labour market – something which would be problematic for cyclical assets – but a stabilisation consistent with the positive outlook for corporate profitability. Nevertheless, with credit spreads trading at historically tight levels, we remain defensively positioned, looking for opportunities within bond selection to enhance returns.
- Similarly, in the eurozone, where we continue to be positive on the cyclical outlook - manufacturing growth is improving and the labour market remains strong, we find corporate valuations expensive with better opportunities in shorter-dated maturities.
- For yield, we continue to find value in securitised assets – including agency mortgage-backed securities and covered bonds.
- Several factors make the longer end of the curve more prone to volatility. Notably, concerns about the political influence over the Fed, as well as bond supply side pressures given expansive fiscal policy in a number of countries.

- We believe that in this market environment, an agile approach to asset allocation, one that leverages issuer-specific opportunities, is the best way to optimise risk-adjusted returns.

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.
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- **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.
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