

# Schroder ISF\* Global Credit Income

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

## Market overview

- Geopolitical headlines dominated news flow during June, with the conflict in the Middle East and a spike in oil prices driving market uncertainty. Meanwhile, economic data reflected slowing growth momentum although concerns over an imminent recession remained low. With central banks nearing the end of their cutting cycle, attention is now shifting away from monetary policy towards the potential impact from fiscal policy.
- The US Federal Reserve (Fed) kept interest rates on hold with the average of Federal Open Market Committee Members continuing to forecast two rate cuts for the remainder of the year.
- Elsewhere, European central banks continued to ease monetary policy conditions with interest rate cuts by the Norwegian, Swedish and Swiss central banks alongside the European Central Bank (ECB). While the ECB's 25 bps rate cut was expected, the significant development was in President Lagarde signalling that they have now 'nearly concluded' their rate cutting cycle.
- Credit markets were resilient to ongoing geopolitical risks, and market volatility actually fell to the lowest in a year following the ceasefire in the Middle East. Investment grade (IG) credit spreads contracted across the US, euro and sterling denominated corporate bond markets, outperforming similar maturity government bonds.
- Given the resurgent appetite for risk, high yield (HY) corporates outperformed their IG in both the euro and US markets. In the UK, high yield lagged the robust performance in IG but still performed comparatively well versus gilts.
- There was greater divergence across government bond markets, with benchmark 10-year US Treasury and gilt yields falling, in comparison to Germany where yields rose during the month.

## Drivers of fund performance

- The Fund delivered a positive return and outperformed the reference index during June, with credit strategies driving the outperformance.
- Exposure to US and European HY markets was a notable contributor to performance, amid resurgent demand for risk assets.
- An emphasis on US securitised bonds, both agency mortgage-backed securities and securitised credit, was additive given further compression of spreads.
- On a sector basis, holdings in financials and real estate performed well.
- Within our duration (interest rate risk) strategy, our European rates exposure was additive, particularly a steepening bias which worked well as short-dated assets outperformed.
- Our holding in a European payments company detracted over the month, on concerns over exposure to merchants that carry a higher associated reputational risk.

## Portfolio activity

- Interest rate risk remains lower than the reference benchmark, and we extended an underweight to the US in June, rotating some of the exposure into the UK.
- We also adopted a more defensive stance in Europe, moving to an underweight duration position while maintaining a curve steepening bias.
- There were no major changes to asset allocation, however we reduced our exposure to US HY CDX following a tightening of credit spreads.
- In the new issue market, we added a holding in secured senior bonds from a subsidiary of an energy infrastructure company. The issue finances a floating, production, storage and offloading (FPSO) unit to support an oilfield off the coast of Brazil on a long-term leasing contract. The bonds offer a yield premium, with the added benefit of predictable cash flow throughout the duration of the lease.
- Among financials, we participated in a new issue of AT1 (Additional Tier 1) bonds from a Spanish bank.

- We also acquired a new holding in a European supplier to the defence industry, as a play on the commitment to increased military spending among NATO members.
- We continue to look for opportunities in emerging markets and acquired a higher yielding holding in a Latin American airline.
- We took profits on holdings in a European satellite operator, and in a recent new issue from a generic pharmaceutical company.

## 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 is beginning to turn 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.
- A fall in market volatility should continue to support strong investor interest in credit markets. We view US and euro denominated IG as generally expensive, but we can still identify opportunities in shorter dated issues.
- HY spreads have tightened significantly post ‘Liberation day’ and the valuation argument has diminished somewhat. While the potential for spreads to contract is now more limited, the asset class nevertheless continues to offer attractive levels of income.

- Agency MBS remain a favoured segment of the market, offering attractive carry from a risk perspective.

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.
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