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Schroder ISF* Global Credit Income

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

Market overview

- Global bond markets generated varying returns during August, buffeted by economic data and political developments.
- US Treasury yields fell sharply at the start of August as official figures showed a decline in new jobs created during July, with downward revisions for prior months. This negative economic development, which prompted the US President to immediately dismiss the head of the office responsible for the numbers, led markets to consider much more seriously the prospect of a near-term interest rate cut from the Federal Reserve (Fed).
- Against a backdrop of increasing political pressure from the Trump Administration, comments from Fed officials later in the month, including Chair Jerome Powell in his speech at the Jackson Hole conference, indicated the prospect of earlier interest rate cuts. They highlighted an increased focus on weakness on the labour market side of its dual mandate, rather than on inflation: the latest Consumer Price Index (CPI) report duly came in lower than expected, defying widespread expectations for a tariff-driven rise.
- While the shorter end of the US Treasury market performed well in response, longer-dated bonds weakened on concerns around the fiscal spending levels implied by last month's budget bill, as well as concerns about the Fed's independence being compromised.
- In contrast, European government bond yields rose steadily through August as the economic outlook appears to be improving. Survey data indicated a continued recovery in manufacturing and other cyclical sectors. With inflation broadly stable, the European Central Bank has indicated the current interest rate policy is accommodative enough and that further cuts from here are not necessary. German fiscal expansion in coming years is another negative factor for European government bonds, while a looming political showdown over fiscal policy in France also provides reason for concern.
- Credit markets were generally more robust during the month, with very little change in spreads. A relatively benign corporate environment in the US (and lower concerns around tariff levels) meant that US credit outperformed European indices.

Drivers of fund performance

- The Fund delivered a positive return and outperformed the reference index during August, driven mainly by curve positioning.
- We were positioned for a steepening in yield curves, both in the US and Europe, which made a positive contribution as yields on longer-dated bonds rose.
- An emphasis on US securitised bonds, particularly agency mortgage-backed securities (MBS), was additive.
- On a sector basis, holdings in subordinated financials - banks and insurers - performed well.
- At the security level, our holding in a US real estate investment trust (REIT) focused on the healthcare sector made a positive contribution.

Portfolio activity

- Activity was relatively light in August, traditionally a quiet month in terms of new issuance and trading volumes.
- Inflows during the month were largely invested in US agency MBS, which offer attractive carry particularly as scope for further compression in credit spreads is limited, with excess cash parked in short-dated Treasuries.
- In government bond markets, we established a short position in France versus Germany, given the potential for spread widening in OATS over bunds on political instability and concerns about the deteriorating fiscal outlook in France.
- In the primary market, we participated in a high yield bond issue from a US pet retailer.
- In the transport sector, we established a holding in a provider of helicopters to offshore oil and gas platforms, a niche business issuing debt at a high coupon on an attractive credit spread.

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

- We also acquired a new holding in a Polish REIT specialising in logistical assets, including offices and retail parks.
- Among financials, we added senior notes issued by a global commodities brokerage after reports of short selling had triggered weakness in the bonds, providing an opportunity to invest in a business which we consider has strong credit fundamentals.
- We took profits on several corporate hybrid issues, which are typically securities with a higher beta, to reduce the risk profile of the portfolio particularly in the European investment grade market.

Outlook/Positioning

- Over the last few weeks there has been a significant reassessment of the condition of the US labour market following the release of softer payroll numbers for July, accompanied by downward revisions to previous months' data.
- From a macroeconomic perspective, our base case remains for a benign 'soft landing', where economic growth slows and inflationary pressures ease, as the likeliest outcome.
- However, the weaker employment data suggests more vulnerability in the US economy. This will impact the Fed's willingness to ease monetary policy, and we believe there is now scope for the Fed to reduce interest rates more quickly.
- While this backdrop is supportive for shorter-dated US bonds, the outlook for longer-dated issues is less positive and remains clouded by concerns about the fiscal deficit and the independence of the Fed from political interference.
- In credit markets, although fundamentals and the technical backdrop remain supportive, valuations are less attractive as spreads are now trading at quite low levels historically.
- Accordingly, we have adopted a more defensive stance favouring high quality short-dated bonds, and agency MBS in particular 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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