

Schroder ISF* Strategic Credit



Fund Manager(s): Peter Harvey

Fund update: March 2026

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Market Review

The war in the Middle East dominated bond markets in March, although investment grade credit remained resilient with US dollar markets performing broadly in line with government bonds. The prospect of tighter financial conditions weighed on European credit, which underperformed the US.

It was a similar trend in high yield credit, with the European market weakening and underperforming the US where returns were far more resilient, as technology, energy and insurance sectors performed well with spreads compressing.

While there was some regional divergence, government bond yields rose across the board, with short-dated yields the worst affected, as the energy price shock and the potential lead through into inflation saw the market pricing in interest rate hikes, where previously rate cuts were priced.

Central banks reacted cautiously. The US Federal Reserve (Fed) kept interest rates on hold at 3.50-3.75%, with chair Powell noting that the Fed would need to see further "progress on inflation" in order to cut rates again this year in view of its dual mandate.

European government bond markets underperformed the US, with the region's reliance on energy imports raising market concerns over more persistent inflation. The European Central Bank (ECB) left the deposit rate unchanged at 2%, with President Lagarde stating that they are "well positioned and well equipped to deal with a major shock".

Elsewhere, the Bank of England (BoE) delivered a more hawkish response to higher energy prices with all nine committee members voting for the base rate to be held at 3.75%. Gilt yields rose sharply over the month, particularly at the short end of the market as investors revised UK monetary policy expectations.

Drivers of Fund Performance

The fund posted a negative total return during March.

Exposure to short-dated UK gilts detracted as the front-end of the yield curve was impacted disproportionately during March with investors now pricing in two 25bp interest rate hikes over the next year.

Holdings in the interest rate sensitive real estate detracted, notably US healthcare real estate investment trust MPW and German commercial property developer Branicks.

The holding in specialty chemicals group Ineos rebounded as disruptions to petrochemical supplies caused by the conflict in the Middle East improved sentiment. Higher prices for the range of commodity chemicals that the company produces should be positive for earnings and margins.

In the leisure sector, Merlin Entertainments was a key contributor as the company's annual results revealed a significant improvement in underlying earnings growth during the second half of the year.

A proportion of the fund is held cash and near-cash (UK Treasury Bills), which was additive in a risk-off environment.

Portfolio Activity

Ahead of the Iran conflict, the fund was defensively positioned both with reduced interest rate duration and reduced spread duration.

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

Exposure to high yield credit had also been reduced, with increased exposure to investment grade issues and short-dated government bonds.

During March, we cautiously added back an element of exposure to investment grade credit while increasing interest rate duration.

We added holdings in euro-denominated short-dated securities from ammunition manufacturer Czechoslovak Group, SNF – a leading French specialty chemical manufacturer, German property group Adler and Belgian speciality chemical distributor Azelis.

We also added issues from banking group Lloyds, auto manufacturer Stellantis and entertainment group Flutter.

In addition, we increased exposure to short-dated UK government bonds, focusing on 4-year securities, while selling protection on an index of high yield bonds.

Outlook/positioning

Bond markets have repriced significantly since the onset of the Middle Eastern conflict at the end of February. This is more pronounced in shorter-dated securities, as investors have now discounted the prospect of monetary tightening over the next 12 months having previously anticipated further interest rate cuts in the US, and in the UK.

We would expect markets to focus more on the growth outlook during the second quarter. Global growth is likely to slow, as a result of demand destruction in the energy sector, crowding out other purchases, reducing global trade, resulting in higher bond yields and negative wealth effects.

From a fundamental viewpoint, the US economy appears most at risk of higher inflation becoming ingrained particularly as the Fed's preferred measure of inflation –the Personal Consumption Expenditures index (PCE) – is still elevated at around 3%. However, as a net energy exporter, the US may be insulated to some extent from the energy price shock.

Elsewhere however, it appears less likely that there can be a sustained energy price shock with little or no impact on growth. Given the eurozone's reliance on energy imports, there is a high vulnerability to disruption of both oil and gas supplies and any sustained rise in energy prices would have a significant impact on inflation. However, prolonged disruption to energy supplies could also derail any recovery in the manufacturing sector, while squeezing real incomes and negating the risks of second round effects, such as rising medium-term inflation expectations and wages.

While valuations have improved in credit markets following recent weakness, spreads remain at low levels historically. Furthermore, the technical backdrop is not as favourable with investors more circumspect and reluctant to increase allocations to riskier asset classes, given the current elevated levels of geopolitical uncertainty where various outcomes to the conflict in the Middle East remain possible. Accordingly, the fund retains a meaningful amount of liquidity ready to reinvest in credit markets should valuations better reflect the inflation/growth challenges.

Calendar yearly performance (%)

Past performance does not predict future returns.

Period	Fund C Acc GBP	Benchmark ¹
2025	7.4	4.4
2024	8.2	5.2
2023	11.3	4.7
2022	-7.7	1.3
2021	3.7	0.0
2020	3.8	0.3
2019	8.8	0.8

2018	-1.8	0.7
2017	4.3	0.4
2016	5.9	0.5

Source: Schroders, Morningstar, as of 31 March 2026. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. 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. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed. The fund's performance should be assessed against its target benchmark.

¹Benchmark refers to ICE BofA Sterling 3-Month Government Bill Index.

Performance snapshot (%)

Past performance does not predict future returns.

	1 Month	3 Months	YTD	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	Since Inception
Fund C Acc GBP	-1.8	-0.7	-0.7	5.1	7.8	3.9	4.1	5.0
Benchmark¹	0.2	0.9	0.9	4.1	4.8	3.3	1.9	1.7

Source: Schroders, Morningstar, as of 31 March 2026. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. 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. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

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Investment Overview

The fund aims to provide capital growth and income in excess of ICE BofA Sterling 3 Month Government Bill Index after fees have been deducted over a three to five year period by investing in bonds issued by companies worldwide.

Risk considerations

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 which are bonds that convert to shares if the bond issuer's financial health deteriorates. A reduction in the financial strength of the issuer 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: If a borrower of debt provided by the fund or a bond issuer experiences a decline in financial health, their ability to make payments of interest and principal may be affected, which may cause a decline in the value of the fund.

Currency risk: If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates.

Currency risk / hedged share class: The currency 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, which are financial instruments deriving their value from an underlying asset, may be used for investment purposes and/ or to manage the portfolio efficiently. 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 meaning greater uncertainty of returns.

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, meaning investors may not be able to have immediate access to their holdings.

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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