Schroders

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Schroder ISF* Strategic Credit

Fund Manager: Peter Harvey | 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.
- Credit markets were resilient to ongoing geopolitical risks, and market volatility actually fell to the lowest in a year following the ceasefire between Israel and Iran. Given the resurgent appetite for risk, high yield (HY) corporates outperformed their investment grade (IG) counterparts in both the euro and dollar-denominated markets. In the UK, HY lagged the robust performance in IG, but still performed comparatively well versus gilts.
- There was a substantial volume of new issuance in the euro HY market during June, as issuers front-loaded their activities before the summer break, capitalising on favourable market conditions.
- 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.
- 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.

Drivers of fund performance

- The fund generated a positive total return during June.
- Positioning in the banking, healthcare and real estate sectors was additive.
- Deutsche Bank was a key contributor, as restructuring to focus on its core businesses and reducing costs has been well received by the market.
- In the real estate sector, holdings in healthcare real estate investment trust Medical Properties Trust and CPI Property Group were additive. CPI announced a tender offer to exchange its euro hybrid subordinated and Singapore dollar bonds.
- The holding in German pharmaceutical group Nidda Healthcare performed well, underpinned by positive cash flow generation.
- Our position in European payments company Worldline detracted over the month, on exposure to merchants that carry a higher associated reputational risk.
- First quarter results at German cable operator Tele Columbus highlighted some stabilisation in revenues although its TV customer base continues to decline, due largely to a regulatory change. As such, this name detracted from returns.

Portfolio activity

- We participated in several new issues in June. In the technology sector, we added a holding in senior secured bonds from Italian group TeamSystems, which provides business software solutions to companies and accountants in its domestic market, and in Spain. The business model is underpinned by recurring subscriptions, which comprise a high proportion of total revenues.
- We initiated a holding in senior secured bonds from telecom infrastructure company FiberCop, a spin-off from Telecom Italia, with a BB-rating.
- In the autos sector, we sold down the holding in Ford and established a position in a short-dated issue from European manufacturer Volvo, which we consider to be well positioned in the rapidly expanding electric vehicle market, which still carries a high yield credit rating
- We retain significant exposure to investment grade bonds, mainly BBB-rated securities, which act as a

*Schroder International Selection Fund is referred to as Schroder ISF throughout buffer against market volatility. We acquired a new subordinated holding in insurance company Hiscox, following a refinancing.

– We took profits on the holding in Deutsche Bank, while other disposals included positions General Motors.

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. Credit markets have already responded sharply to the change in outlook. The market moves in recent weeks lead us to maintain a strong emphasis on quality and a generally cautious approach to investing in more cyclical sectors, particularly autos and basic industries.
– Going forward, we are looking for opportunities in companies with business models that are mostly insulated from the trade uncertainty. We see healthy dispersion in the high yield market.
– Although spreads have tightened considerably in recent months, a fall in market volatility should continue to support strong investor interest in credit markets. A combination of lower interest rates, positive carry and idiosyncratic opportunities should underpin total returns from high yield markets over the second half of the year.

Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and investors may not get back the amount originally invested.

Calendar year performance (%)

	C Acc	Target
2024	8.2	5.2
2023	11.3	4.6
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
2015	3.4	0.6

Source: Schroders, as at 31/12/2024. All performance net of fees (where applicable), NAV to NAV (bid to bid), GBP returns. Target : ICE BofA Sterling 3-Month Government Bill Index.

Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark.

Please see the respective fund factsheets for the performance of other share classes.

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. If the financial strength of the issuer of a contingent convertible bond falls in a prescribed way, the value of the bond may fall significantly and, in the worst case, 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.

Derivatives risk – efficient portfolio management and investment purposes: Derivatives may be used 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. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.

Event risk: The fund will take significant positions on companies involved in mergers, acquisitions, reorganisations and other corporate events. These may not turn out as expected 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.

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.

Important information