Schroder ISF* Strategic Credit

Fund Manager(s): Peter Harvey

Fund update: April 2026

Marketing material for professional clients only.

Market Review

April was another volatile month for global bond markets. Oil prices remained elevated, a reflection of the ongoing disruption in the Middle East, with Brent crude briefly moving above $120 a barrel for the first time since 2022. While bond markets are expecting rising inflation to result in interest rate hikes in Europe and the UK, so far central banks have been taking a cautious approach.

Government bond yields initially fell on news of a temporary ceasefire between the US and Iran, reflecting optimism that this would lead to a broader de-escalation. However, by mid-April, negotiations had stalled and with the Strait of Hormuz remaining effectively closed the market's focus shifted back towards stagflation, driving yields higher.

Corporate bonds performed well and generated positive returns over the month. With credit spreads having widened notably during risk-off episodes, the month saw spreads tighten across the board in both the investment grade and high yield markets. High yield corporate bond markets outperformed investment grade, with euro denominated issuers on average achieving better returns than US across both investment grade and high yield markets.

Central banks kept rates on hold, with messaging emphasising caution and data dependence amid an uncertain macro backdrop. In the US, yields rose across the curve as the Federal Reserve (Fed) signalled a steady policy stance leaving interest rates on hold at 3.5-3.75% despite a split in views, with one dovish dissent supporting a 25-basis point cut and three hawkish dissents over the inclusion of an easing bias in the accompanying statement.

European government bond markets remained particularly sensitive to events in the Middle East given the region's dependency on energy imports, with the 10-year German bund yield recording its highest level since 2011. However, in a reversal of the trend exhibited during March, peripheral markets outperformed the core. The European Central Bank (ECB) left the deposit rate unchanged at 2% although officials adopted a cautious stance on monetary policy guidance, emphasising the impact of the Middle East conflict on inflation.

In the UK, gilt yields rose to post-2008 highs, with the sell-off driven by inflation concerns and compounded by fiscal and political uncertainty ahead of local elections, reinforcing the broadly cautious tone from policymakers. The Bank of England voted 8 to 1 to keep the base rate at 3.75%, with the meeting minutes highlighting the high degree of uncertainty.

Drivers of Fund Performance

The fund posted a positive total return during April.

Holdings in the interest rate sensitive real estate sector rebounded, notably German commercial property developer Branicks, US healthcare real estate investment trust MPW and GTC – a commercial developer focused on Central and Eastern European markets.

Exposure to the healthcare sector was additive. German pharmaceutical group Grunenthal performed well following recent annual results highlighting record earnings, while US drugmaker Organon accepted a takeover offer from Indian group Sun Pharmaceutical.

The holding in global specialty chemicals group Ineos performed well as continuing disruptions to petrochemical supplies caused by the conflict in the Middle East highlighted the advantages for groups with European operations in comparison with Asia-focused peers, as they are less reliant on the Persian Gulf, sourcing feedstock from the US.

Holdings in gilts detracted as the UK remains particularly sensitive to sustained higher energy prices, while political uncertainty ahead of May's local elections also contributed to the gilt market's relative weakness during April.

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

Portfolio Activity

During April, we modestly increased interest rate duration on the view that the UK rate hikes now priced by the gilt market are unlikely to be realised.

By contrast, with credit spreads at tight levels spread duration has been kept relatively low having been steadily reduced over the last 12 months, while exposure to investment grade credit has also been increased.

We participated in primary market issues over the month. In the high yield market, these included issues from Italian cable operator Fibercop to fund the expansion of its fiber optic network, and Canpack – a leading provider of aluminium beverage cans.

We continue to focus on opportunities in the technology sector, specifically AI-related capital expenditure on the build out of data centres. Our emphasis is on identifying infrastructure assets with long fixed-term leases with strong covenants, where the tenant is committed to regular rental payments during the build out phase while covering any potential liability for cost overruns.

We added an investment grade issue from a special purpose financing vehicle, created by Blackstone and Related Digital to finance the construction of a large-scale data centre campus in Michigan. The facility is fully pre-leased to US database group Oracle, which is responsible for all operating costs.

We also participated in investment grade issues from Westfield Stratford, owner of the east London shopping centre which is one of Europe's largest with a AAA credit rating, as well as a new issue from UK housebuilder Berkeley.

Outlook/positioning

At this stage, we have only limited data about the economic impact of the Middle East conflict. However, our base case for the US economy is that it will be a manageable headwind, given underlying strength going into the conflict, both among consumers and the manufacturing sector. We are also seeing continued signs that the labour market has troughed and conditions are improving.

While consumer real incomes will be dented by rising oil prices, we expect a peak impact on inflation of about 1% above the previous baseline. Other factors are offsetting this with the consumer elements of One Big Beautiful Bill (OBBB) taking effect as income tax refunds have increased significantly in the first quarter of 2026 compared to last year and will continue to do so into the second quarter. This tailwind will largely offset the drag from higher gasoline prices. In aggregate, US consumers should end up in largely the same place.

The eurozone is doubly affected by the closure of the Strait of Hormuz due to the impact on natural gas prices, crucial for electricity and heating. Although the initial reaction to the war was sharp, gas prices have retraced a significant portion of this move, leaving them elevated relative to their pre-war baseline but still significantly lower than after the Russia/Ukraine conflict in 2022.

We expect that the impact on the eurozone economy will be noticeable, but not recessionary. Like the US, this is partly a function of a solid starting point. Our view is that while so far, the ECB has taken a non-committal approach, we expect it to be among the more hawkish of the central banks when assessing an appropriate policy response. For the UK, we have become increasingly cautious as the outcome of May's local elections increasingly looks like prompting a leadership challenge.

More broadly, we seem to be stumbling towards a resolution in which transit through the Strait of Hormuz will be possible again. This is very much a two-steps-forward, one-step- backward process, while risks of a complete breakdown in negotiations remain.

Given current valuations, with spreads having tightened over the month we remain defensively positioned, with a substantial proportion of the portfolio in investment grade credit, while remaining selective in identifying new investment opportunities.

Calendar yearly performance (%)

Past performance is not a guide to future performance and may not be repeated.

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 30 April 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.

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

Performance snapshot (%)

Past performance is not a guide to future performance and may not be repeated.

	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	1.2	-0.1	0.5	5.9	8.0	4.1	4.1	5.0
Benchmark[1]	0.4	0.9	1.2	4.1	4.8	3.3	1.9	1.7

Source: Schroders, Morningstar, as of 30 April 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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