

# Schroder ISF\* Strategic Credit

Fund Manager: Peter Harvey | Fund update: February 2026

## Market overview

- It was a positive month for government bond markets, with yields falling across the board as geopolitics and artificial intelligence (AI) related news dominated the headlines in February.
- Credit markets underperformed as spreads across both investment grade and high yield markets widened. Sectors viewed as most vulnerable to the potentially disruptive impact of AI, notably technology (particularly software companies), financial services and insurance, exhibited the most significant spread widening.
- In the US, the Supreme Court ruled that the Trump administration's use of the International Emergency Powers Act (IEEPA) to impose broad based tariffs was unconstitutional. Signs of labour market weakness, combined with a prevailing 'risk off' mood amid a sell-off in US equities, saw investors price in additional interest rate cuts this year with Treasury yields declining over the month.
- Government bond market yields also fell across the eurozone. Economic indicators released during February were supportive, with headline inflation declining to 1.7% in January, below the European Central Bank's (ECB) 2% target, as lower energy costs and a stronger euro combined to ease inflationary pressures. As expected, the European Central Bank (ECB) kept interest rates unchanged at 2%.
- In the UK, the Bank of England left interest rates unchanged at 3.75% although the vote was split with 4 members voting for a 0.25% cut while a dovish tone in communications raised expectations that the next monetary policy meeting in March would herald a further interest rate cut.

## Drivers of fund performance

- The Fund generated a positive total return during February.
- Exposure to short-dated UK gilts made a positive contribution, on expectations of an imminent interest rate cut in March as inflation data for January was benign, and in line with the downward trajectory.

- Among banking sector issues, exposure to higher quality longer-dated issues was additive.
- The holding in Ineos rebounded on reports that the UK specialty chemicals group is considering asset sales and a potential refinancing of bonds that are due to mature next year.
- In the real estate sector, Eastern European group GTC Aurora, a new acquisition in December following a recent refinancing, was a key contributor.
- In healthcare, German group Cheplapharm - an international platform for that distributes established branded medicines worldwide, was additive as an issue of senior secured notes was oversubscribed.
- By contrast, the holding in legacy UK digital broadcaster Arqiva, which has a growing smart meter business, weakened following an equity write-down by a major investor as the business faces regulatory uncertainty on digital broadcasting renewal.

## Portfolio activity

- We participated in several new issues during February. We added a holding in a securitised issue of BT telephone exchanges from Telereal, with strong asset backing.
- We added a BB-rated from Black Pearl, a US data centre operators which manages leases to high quality tenants. Following recent market weakness, the issue was on an attractive credit spread over US Treasury bonds.
- We also purchased a new short-dated issue from leading European satellite operator Eutelsat, part of a refinancing programme to support longer-term investment in satellite operations, which are strategically important as European government increase defence and infrastructure spending.
- With credit spreads in the high yield market now at substantially tighter levels, we continue to hold a significant proportion of the portfolio in investment grade corporate bonds, as well as exposure to short-dated gilts, which act as a buffer against market volatility.
- In the investment grade market, we purchased a high coupon issue from European ammunition

manufacturer Czechoslovak Group, following a recent rating upgrade to BBB status.

- The holding in Cheplapharm was redeemed on the completion of a refinancing that extended the maturity profile of its debt to help stabilise the business.

## Outlook/Positioning

- Fiscal stimulus continues in the US and interest rates are moving lower at a time when we have seen continued evidence of a basing in the labour market that was already taking shape. We expect the labour market recovery will remain shallow, despite January's payrolls report which likely overstated the strength of improvement.
- We currently see limited value in US credit markets as credit spreads are tight with little margin for error. However, despite concerns over substantial capital expenditure required to fund AI-related infrastructure, leading technology companies have had little difficulty so far in raising capital through the credit markets.
- We remain moderately positive on the economic outlook for the eurozone. There are signs that the fiscal spending is having a positive impact on economic activity, leading to an improvement in the manufacturing sectors. Moreover, in contrast to the rise in unemployment in the US, eurozone unemployment has equalled all-time lows in recent months. Inflation measures suggest an underlying trend that is broadly in line with its 2% target.
- Notwithstanding geopolitical developments, we also expect corporate fundamentals in the eurozone to remain stable and the default rate to stay relatively low in comparison with the US.
- However, we are mindful that credit spreads in euro high yield, at index level measured over government bonds, are expensive relative to historic levels. Accordingly, we continue to place a greater

emphasis on higher quality credit, with an element of exposure to cash and sovereign debt awaiting investment opportunities in credit markets.

- We remain focused on identifying idiosyncratic opportunities that can provide strong total returns in a variety of market environments, which should prove to be a fertile hunting ground for active investors over the coming months.

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
2025	7.4	4.4
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

Source: Schroders, as at 31/12/2025. 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.

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**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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