

Schroder ISF* Strategic Credit

Fund Manager: Peter Harvey | 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.
- Credit markets were generally robust during the month, with very little change in spreads at the overall index level. A relatively benign corporate environment in the US (and lower concerns around tariff levels) meant that US credit outperformed European indices, in both the investment grade and high yield markets. In euro markets, there was an uptick in primary market activity while risk sentiment was adversely impacted by renewed political turmoil in France.
- 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.

Drivers of fund performance

- The fund generated a positive total return during August.
- Positioning in the telecoms, real estate and financial service sectors was additive.
- In telecoms, the holding in Caribbean-based Digicel was a key contributor as the company announced a refinancing in the dollar-denominated bond market.
- Security selection in the real estate sector made a significant positive contribution to relative performance over the month. The main contribution came from the holding in Branicks, an owner of German office and logistics assets where progress on refinancing has been positive for bondholders.
- Holdings in French property management group Foncia and US healthcare real estate investment trust (REIT) MPT were also additive.
- In financial services, the holding in Swiss private bank Julius Baer was the leading contributor.

Portfolio activity

- In the healthcare sector, we added to the holding in diversified European pharmaceutical group Cheplapharm, focusing on dollar-denominated bonds trading substantially below par on an attractive yield to maturity.
- We participated in a new short-dated issue from a French care home network, which carries a high coupon and is backed by the company's property portfolio.
- We increased the duration of the portfolio through adding exposure to 5-year UK gilts after yields have risen in recent months.
- On the disposal side, we took profits on a new issue from Japanese technology conglomerate Softbank.

- 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 bonds, mainly BBB-rated securities, which act as a buffer against market 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 sovereign debt back into credit markets.

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.
- In Europe, the economic environment continues to improve as tariff uncertainty declines, while the ECB has indicated that they are not expecting to cut interest rates further.
- Looking ahead, the combination of higher fiscal spending and more accommodative monetary conditions should continue to underpin a recovery in eurozone economic activity.
- However, we are mindful that credit spreads at index level measured over government bonds have compressed significantly over recent months.
- Accordingly, we remain focused on identifying idiosyncratic opportunities that can provide strong total returns in a variety of market environments.

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.

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