

Schroder ISF* EURO Credit Conviction



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Fund update: March 2026

Marketing material for professional clients only.

Market Review

The war in the Middle East dominated bond markets during 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 markets, which underperformed the US.

Given the outbreak of conflict in the Middle East, primary market activity in European credit was relatively subdued while inflows into investment grade funds have largely dried up. During March, the decompression in credit spreads saw corporate hybrids, cyclical names and interest rate sensitive sectors, particularly real estate, underperform.

Heightened volatility and a surge in oil and gas prices triggered a significant sell-off in government bond markets. While there was some regional divergence, government bond yields rose across the board, with short-dated securities the worst affected, as the energy price shock and the potential lead through into inflation saw bond markets pricing in interest rate hikes, where previously rate cuts were discounted.

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".

Nevertheless, the inflationary threat from higher oil prices has clouded the outlook for eurozone monetary policy. Annual inflation in the eurozone was 2.5% in March, up from 1.9% in February, according to an estimate from Eurostat. The flash eurozone composite purchasing managers index (PMI) indicated a slowdown in economic activity during March, as service sector activity stagnated.

Drivers of Fund Performance

The Fund posted a negative total return and underperformed the reference benchmark during March after fees.

Exposure to the real estate and subordinated insurance sectors detracted from performance over the month, as decompression resulted in higher beta holdings detracting.

Holdings in corporate hybrid securities and more cyclical names also detracted.

An off-benchmark allocation to emerging market sovereign debt also weighed on returns.

In the risk-off environment, portfolio protection against a sell-off in the European investment grade market made a positive contribution to relative performance.

Exposure to the energy sector and services was additive.

Portfolio Activity

As credit spreads widened during the month, we looked to deploy funds parked in highly liquid eurozone sovereign debt into credit markets, participating in several new issues.

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

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We continued to focus on data centre infrastructure assets, adding a new issue from a leading US technology company to fund AI-related expenditure, focusing on shorter-dated securities on an attractive yield as the credit outlook for the business is underpinned by diversified revenues encompassing retail sales and cloud computing.

In the energy sector, we purchased a euro-denominated new issue from a US oilfield services group which is a beneficiary of increased capital expenditure, particularly on liquified natural gas (LNG) infrastructure.

We also added a euro-denominated issue of hybrid securities from an auto manufacturer to strengthen the balance sheet as the business pivots away from the electric vehicle (EV) market. We are positive on the prospects for a stabilisation in cash flows over the next 12-18 months.

In the communications sector, we purchased senior notes issued by a special purpose entity to fund the buyout of a US media and content provider with a strong franchise and cash generative business.

We sold down portfolio protection against weakness in the European investment grade market after credit spreads had widened earlier in the month, as well as liquidating several holdings in core eurozone government bond markets.

Outlook/positioning

European bond markets have repriced 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 that the ECB would leave interest rates on hold.

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.

Nevertheless, in comparison to the 2022 energy price shock after the start of the Russia-Ukraine conflict, the starting point now is better. Four years ago, supply chains were already highly disrupted in the aftermath of the pandemic, inflation expectations were dis-anchored while wage growth was far above levels consistent with the ECB's 2% inflation target. Yield levels are also elevated compared to the start of 2022, providing a meaningful buffer against volatility.

While valuations have improved in European 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.

Against this backdrop, we have added risk modestly while continuing to place a strong emphasis on credit quality, focusing on opportunities that offer good carry and favourable underlying credit fundamentals, while limiting exposure to cyclical sectors and issues which are vulnerable to near-term refinancing pressures.

Calendar yearly performance (%)

Past performance does not predict future returns.

| Period | Fund A Acc EUR | Fund I Acc EUR | Benchmark ¹ |
|--------|----------------|----------------|------------------------|
| 2025 | 3.9 | 5.1 | 3.4 |
| 2024 | 6.9 | 8.3 | 5.2 |
| 2023 | 10.6 | 12.0 | 9.0 |
| 2022 | -16.7 | -15.7 | -14.8 |
| 2021 | -1.1 | 0.2 | -0.6 |
| 2020 | 4.8 | 6.1 | 3.0 |
| 2019 | 9.8 | 11.1 | 7.7 |

| | | | |
|------|------|------|------|
| 2018 | -3.6 | -2.4 | -2.0 |
| 2017 | 6.2 | 7.5 | 3.4 |
| 2016 | 6.8 | 8.1 | 5.4 |

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 investment universe is expected to overlap to a limited extent with the components of the benchmark. The investment manager invests on a discretionary basis and there are no restrictions on the extent to which the fund's portfolio and performance may deviate from the benchmark. The investment manager will invest in companies or sectors not included in the benchmark in order to take advantage of specific investment opportunities.

¹Benchmark refers to Markit iBoxx EUR Corp BBB TR.

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 A Acc EUR | -2.6 | -1.3 | -1.3 | 2.3 | 6.1 | 0.1 | 2.1 | 2.7 |
| Fund I Acc EUR | -2.5 | -1.0 | -1.0 | 3.5 | 7.4 | 1.3 | 3.4 | 4.0 |
| Benchmark¹ | -2.4 | -1.0 | -1.0 | 2.1 | 4.8 | -0.0 | 1.4 | 1.9 |

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 the Markit iBoxx EUR Corp BBB TR after fees have been deducted over a three to five year period by investing in bonds denominated in Euro issued by companies worldwide.

Risk considerations

ABS and MBS risk: The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.

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.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

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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