

Schroder ISF* EURO Credit Conviction

Fund Manager: Patrick Vogel | Fund update: December 2025

Market overview

- Government bonds were the main influence on credit markets during December with yields across the major government bond markets generally increasing. Although the Federal Reserve (Fed) cut interest rates by a further 25 basis points as expected, the release of better-than-expected Q3 US GDP growth contrasted with softer job growth and rising unemployment. Recent labour market data suggested a moderation - but not a collapse - in labour demand, with the low hire, low fire trend continuing.
- In European credit markets, spreads closed unchanged month over month as the primary market was quiet and liquidity dried up ahead of the year-end, traditionally a time when trading volumes are low.
- The European Central Bank (ECB) kept interest rates on hold as expected, while upgrading their forecasts for growth and core inflation. The bond markets anticipated the next move by the ECB to be a rate hike following hawkish comments by board member Isabel Schnabel. German bund yields were driven higher by the announcement that issuance levels in 2026 are set to be substantially above forecast, €500bn as against consensus estimates for €300bn.
- The Flash Composite Purchasing Managers Index (PMI) for December highlighted that although the eurozone economy lost some momentum as the year ended, activity in the services sector remained robust. However, there were signs of a renewed downturn in the manufacturing sector with a decline in new orders for the second consecutive month. Nevertheless, the PMI signalled an expansion in activity overall and in Q4 as a whole the eurozone's best performance since the second quarter of 2022.
- The preliminary estimate for December indicated that consumer price inflation returned to its 2% target, reflecting a modest easing of pricing pressures in the services sector - which had been the principal driver of headline inflation - and reinforcing expectations that interest rates are likely to remain on hold over the coming months.

Drivers of fund performance

- The Fund posted a total return close to zero and outperformed the reference benchmark during December after fees.

- Security selection in the automotive, banking, utility and insurance sectors was additive.
- Within the banking sector, holdings in Eastern European lenders made a positive contribution.
- In contrast security selection in real estate detracted.
- Off-benchmark exposure to Romania continues to be additive for relative performance, as the country's sovereign debt has a low correlation with the euro-denominated investment grade market.

Portfolio activity

- With credit spreads at tight levels, we have retained a cautious approach. The Fund's spread duration has been maintained marginally above its reference benchmark, limiting the portfolio's sensitivity to any widening of credit spreads.
- We have parked a proportion of the portfolio in cash and cash equivalents, awaiting suitable opportunities to deploy these funds in credit markets.
- During December, trading activity was relatively light. We added holdings in short-dated securities issued by leading US investment banks, which carry a high credit rating, as well as short-dated senior debt issued by a French bank.
- Among higher yielding securities, we added a holding in a US payments processing company which is growing revenues and gaining market share.
- While we have maintained limited exposure to cyclical sectors, in autos we added a new issue from the finance unit for the leasing business of a leading European vehicle manufacturer which provides an attractive yield.
- We sold our holding in a European supplier of household appliances after a recent profit warning weakened sentiment towards the business, although we exited the issue having benefitted from a tightening in the credit spread.
- We also took profits on our holding in a French life insurance group.

Outlook/Positioning

- We remain moderately positive on the economic outlook for the eurozone. The services sector is rebounding strongly, while the labour market remains resilient. In contrast to the rise in

unemployment in the US, eurozone unemployment has equalled all-time lows in recent months. However, we have yet to see any broad recovery in the manufacturing sector and the order to inventory ratio in many sectors is still negative. Inflation measures continue to suggest an underlying trend that is hovering slightly above its 2% target.

- Investors have adopted a broadly positive view on the impact from German fiscal stimulus, in the form of higher infrastructure and defence spending, on the growth prospects for the economy. However, there are clear risks that the multiplier effects from fiscal stimulus could prove be more limited than widely anticipated. Not least because the German government needs to address the issues of funding the state pension system, as well as healthcare provision, against a backdrop of a long-term decline in the workforce on current demographic trends.

Accordingly, we are placing a strong emphasis on credit quality with a clear preference for non-cyclical sectors, maintaining a cautious view on the prospects for cyclicals in the eurozone, particularly at a time when credit spreads at index level measured over government bonds are expensive relative to historic levels.

- Cognisant of market valuations, we have positioned the portfolio defensively, while still picking up good carry, in view of the risk of a widening of credit spreads particularly if we reach a turning point on inflows into the euro investment grade market.

Calendar year performance (%)

	A Acc	I Acc	Target**
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

Past performance does not predict future returns. 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.

2019	9.8	11.1	7.7
2018	-3.6	-2.4	-2.0
2017	6.2	7.5	3.4
2016	6.8	78.1	5.4

Source: Schroders as at 31/12/2025 net of fees (where applicable), NAV to NAV (bid to bid), EUR. **iBoxx EUR Corp BBB. The fund's performance should be assessed against its target of exceeding the iBoxx EUR Corporates BBB (TR) index. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark.

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. 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.

Currency risk / hedged shareclass: The 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 may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. 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 and less developed markets: The fund may invest in emerging and less developed markets. Investing in emerging and less developed markets is subject to greater risks than investing in securities of developed countries such as ownership and custody risks, political and economic risks, market and settlement risks, liquidity and volatility risk, legal and regulatory risks, execution and counterparty risk, and currency risk, which may adversely affect the net asset value per share of the fund and investors may as a result suffer losses.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

IBOR risk: The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.

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.

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. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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