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Schroder ISF[1] Emerging Markets Debt Total Return

SFDR Article 8

Fund update

May 2024

Objectives

i. **Preservation of capital:** mitigate losses in falling markets by using a disciplined risk control framework *(e.g. fund stop loss policy, hedging, use of cash)*

ii. **Maximise returns:** participate in rising markets

Investment approach

Total return approach based on comprehensive country research.

The investment process follows four types of analysis: **fundamental, quantitative, technical and sentiment.**

ESG is integrated into our country and corporate scorecards.

Broad investment universe including currencies, local and external debt (sovereign, corporate and convertibles) in more than 50 countries.

Long-only, no leverage, no complicated derivatives.

Risk controlled by liquidity based diversification limits, portfolio stop-loss and use of cash.

Role in clients' portfolios

As a low-risk or entry level EMD exposure or combined with standard EMD beta managers.

As a total return strategy, designed to diversify risk and enhance returns.

As a liquid alternative investment.

Source: Schroders. There is no guarantee that these objectives will be achieved. Diversification cannot ensure profits or protect against the loss of principal.

Current strategy summary:

Dollar debt

- EM dollar debt high yield remains attractive, notably in selected sovereign frontier markets with strong ability to pay and with spreads that are still at historically high levels.
- EM dollar debt investment grade spread levels are less appealing as they remain close to their record lows.
- **Core exposures to credits with attractive yields and improving sovereign risk metrics. Manage IR duration actively.**

Local debt

- We see limited opportunities in the high-grade low yielding local debt markets. These offer limited protection given our long-term central scenario of entrenched global inflationary pressures.
- There are pockets of value in long-term maturities in Brazil, Mexico, Colombia, Hungary, South Africa, India and Indonesia. These offer attractive nominal and real yields on an absolute basis and when measured as a spread over equivalent US Treasuries.
- **Continued focus on countries with attractive high real yields, good liquidity and credible monetary policy frameworks.**

Currencies

- Tightening US monetary policy and US growth outperforming have provided a strong support for the US dollar in recent years. However, this has left the dollar extremely overvalued and susceptible to the continued accumulation of extremely high levels of US twin deficit.
- We expect continued performance differentiation in exchange rates markets. Currencies with reasonable REER valuations, stable balance of payments and high interest rate support should generate attractive carry (BRL, COP, IDR, ZAR).
- **We are constructive on EM currencies, but tactical hedges will be implemented in periods of increasing global volatility.**

Source: Schroders – May 2024. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Review:

- EM bonds and currencies performed well in May in line with the drop in US Treasury bond yields. All EM debt sub-sectors performed reasonably well in May by achieving a positive monthly return of +1.8% for hard currency (EMBI GD), +1.6% for local currency (GBI-EM GD) and +1.5% for EM corporates (CEMBI BD). However, this good performance is starting to be challenged as volatility has returned to some markets for the following reasons: **(i)** the continued resilience of the US labour market appears to have postponed yet again the start of the Fed's long-awaited easing cycle, thus leading to renewed upward pressures on

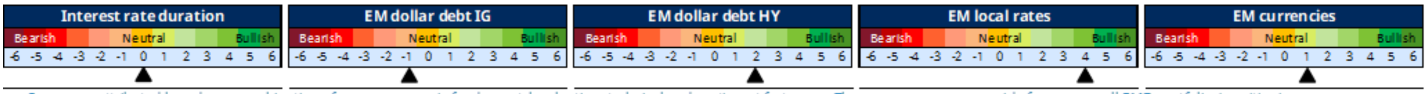
[1]Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

bond yields and on currencies across the board; and **(ii)** the unexpected outcomes of elections in South Africa, Mexico and India are leading to the ongoing flare up in volatility in these markets. We provide below a brief update on Mexico and South Africa, where investors' sentiment has deteriorated.

- **Our portfolio activity in May focused on adding to EM rates exposures** in some of the highest yielding local bond markets (Brazil, Mexico, South Africa, Indonesia, Hungary and Turkey). We maintained a relatively cautious stance on currencies and started to hedge FX risk across the board to minimise the election induced volatility in Europe, Mexico, South Africa and India.
- **The fund performed reasonably well in May.** The fund had a monthly return of +1.04% in gross US dollar terms with the key contributors to this outcome being: **(i)** US dollar debt which had a +12bps positive impact; and **(ii)** local currency debt which contributed +92bps, of which +46bps was due to lower local rates, +32bps was generated by income and +14bps from currency appreciation. The main contributors by country were as follows: Turkey (+30bps), Chile (+19bps), Indonesia (+11bps), India (+9bps) and Central European countries (+25bps).

Investment outlook:

- From a global macro-economic point of view, our investment stance has not changed. We remain broadly neutral on US interest rate duration and on EM dollar debt but we continue to focus on pockets of value in high yielding sovereigns and corporates. We also now see some attractive value appearing again in EM rates following the recent re-pricing. However, caution towards currencies is warranted as a renewed tightening in official US liquidity (see below) and expectations of US monetary policy divergence between the US and the rest of the world are supporting the US dollar for now. These sectorial views are presented in the following scorecard:

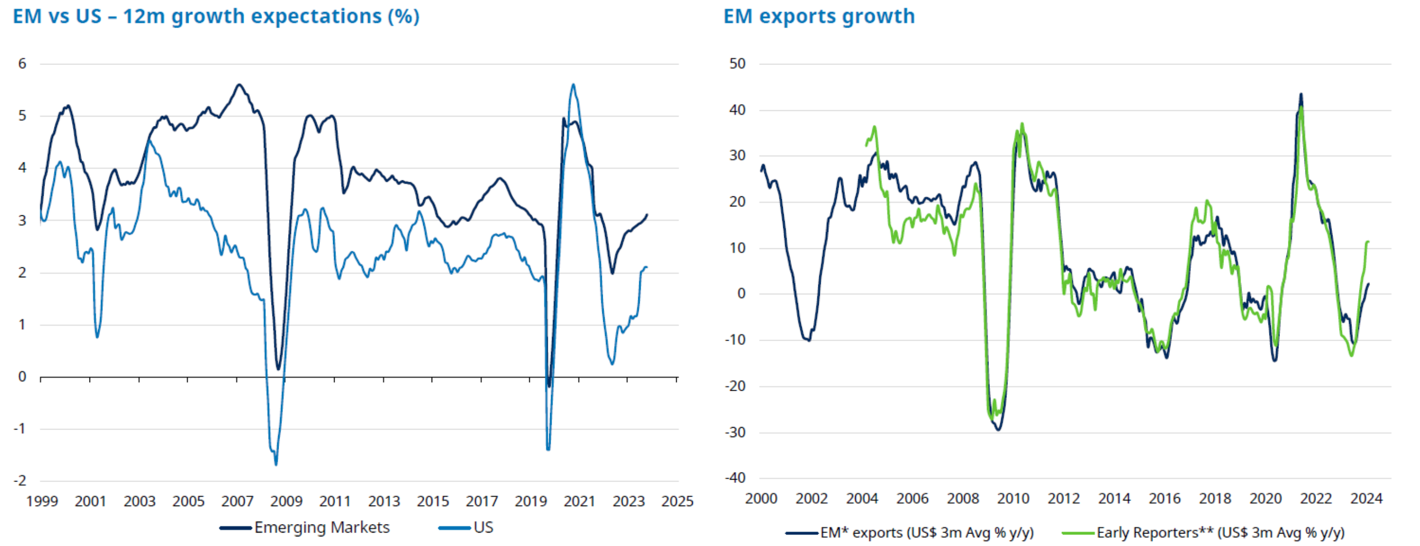


Scores are attributed based on a combination of macro-economic fundamental, valuation, technical and sentiment factors. These scores serve as a guide for our overall EMD portfolios' positioning.

- These scores are driven by our assessment of valuations, market technical and our fundamental analysis of the current stages of the growth, inflation, trade and liquidity cycles. This analysis can be summarised as follows:

  (i) **The global growth cycle remains in the recovery phase** and there appears to be no signs of late cycle excesses or euphoria. The upturn in the global trade cycle is still firmly in place (as highlighted in figure 1) and this should continue to provide some support to growth in a number of EM economies. China's growth trajectory remains disappointing, but most EM economies have already adjusted to this widely publicised China's underperformance.

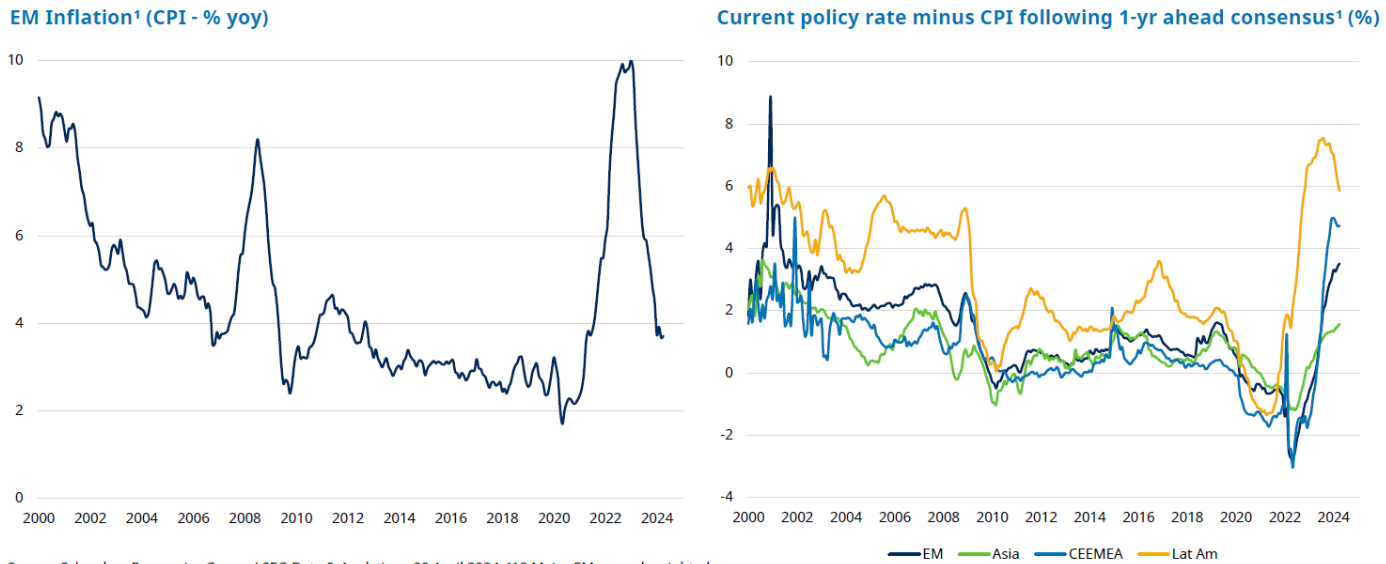
Figure 1 – Global growth expectations and EM export cycle



Source: Schroders, Consensus Economics; LSEG Data & Analytics – 30 May 2024.

(ii) **The current disinflation phase of the cycle appears to have run its course** given that the large drops of energy and agricultural commodities prices from their 2022 peaks have now been fully reflected in DM and EM consumer price indices. There is a risk that we could experience a second inflation wave should services and wage inflation remain sticky in developed economies, commodities prices experience a resurgence, or the US and European elections lead to a re-escalation in the global trade war. However, as shown in figure 2, the levels of EM real rates are so high that moderately negative inflation surprises should be absorbed reasonably well by EM debt.

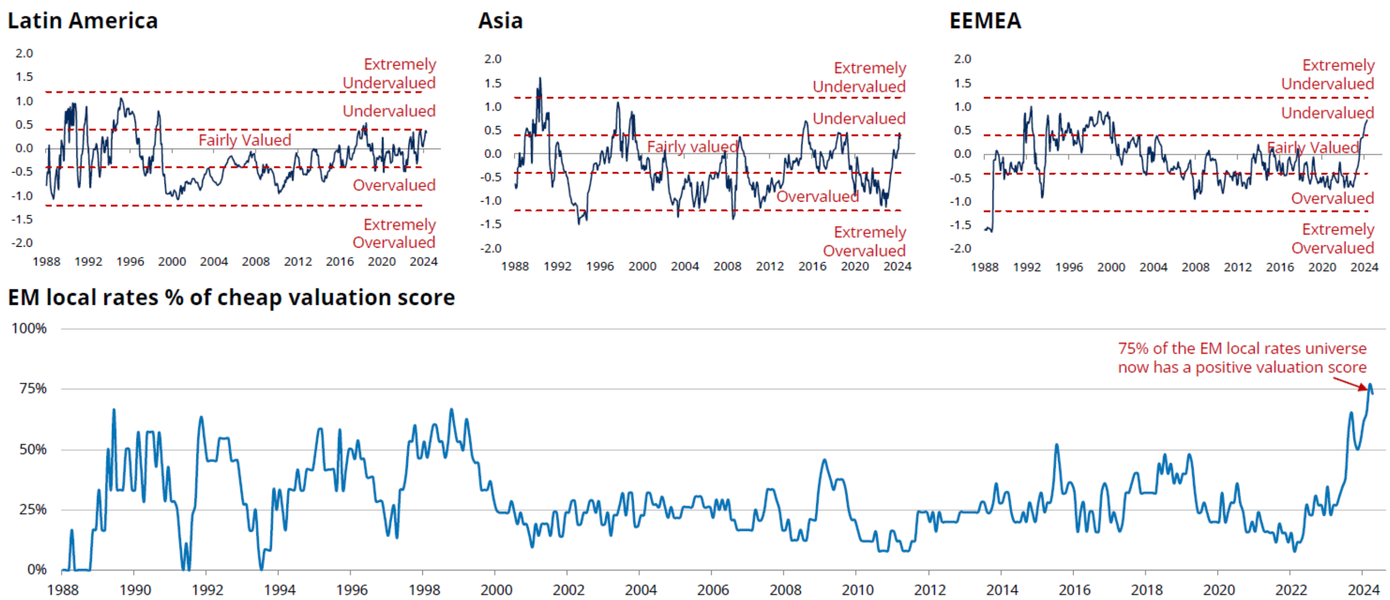
Figure 2 – EM inflation and real rates



Source: Schroders Economics Group; LSEG Data & Analytics – 30 April 2024. ¹18 Major EMs, equal-weighted

(iii) **EM local bond valuations have improved significantly** as the recent backup in EM rates has occurred at a time when 12 months inflation expectations are still heading lower. Some of this cheapening, shown in figure 3, is justified by the deteriorating fiscal picture that has resulted mostly from a surge in interest payments in countries such as Brazil, where the trends in the primary fiscal balance are less of a concern to us. In any case, we believe that the current level of real rates already reflects these fiscal worries and that the broad strength in external positions and the lower reliance on short-term foreign portfolio flows has substantially reduced sovereign vulnerabilities.

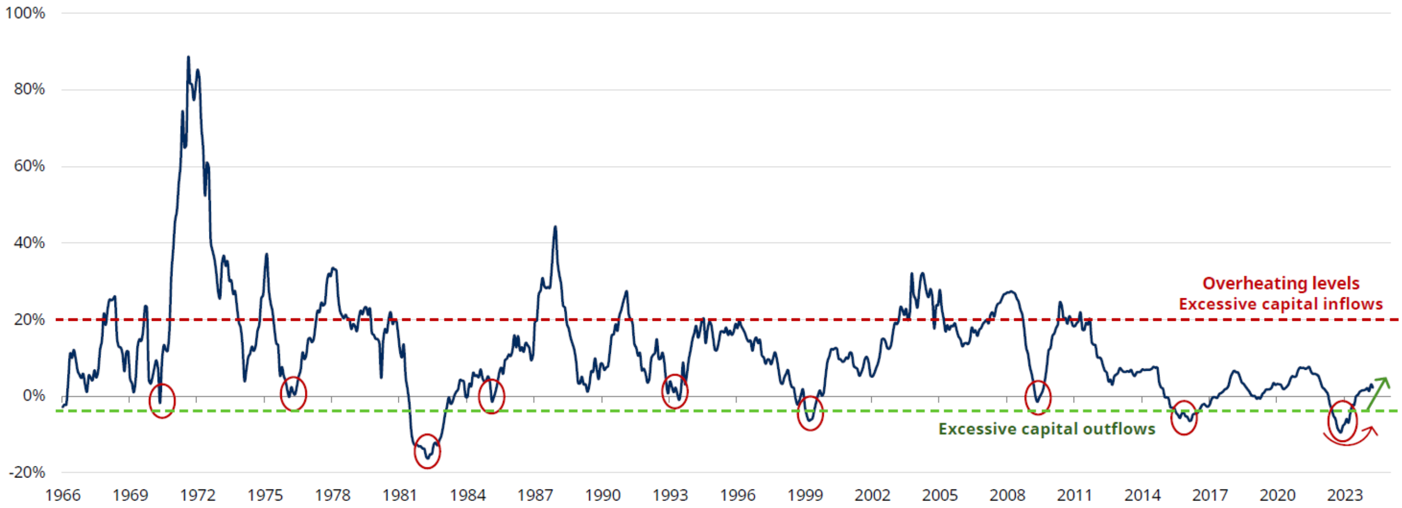
Figure 3 – EM local rates average valuation scores by region



Source: Schroders; Bloomberg; LSEG Data & Analytics, Macrobond – 30 April 2024.

(iv) **The global liquidity environment remains supportive but could deteriorate soon.** While ample stock of (unused) liquidity should continue to provide a significant cushion for global risk assets, the flow of official liquidity is expected to deteriorate notably as a result of our estimated $0.5trn of US liquidity withdrawal in H2 2024. Global private credit impulse indicators are recovering but remain at depressed levels. In contrast, global capital flows continue to recover judging by what appears to be a self-sustaining rebound in EM foreign exchange reserves, as shown in figure 4.

Figure 4 – EM Foreign Exchange Reserves Annual Growth (%)



Source: Schroders; Bloomberg; LSEG Data & Analytics – 30 April 2024.

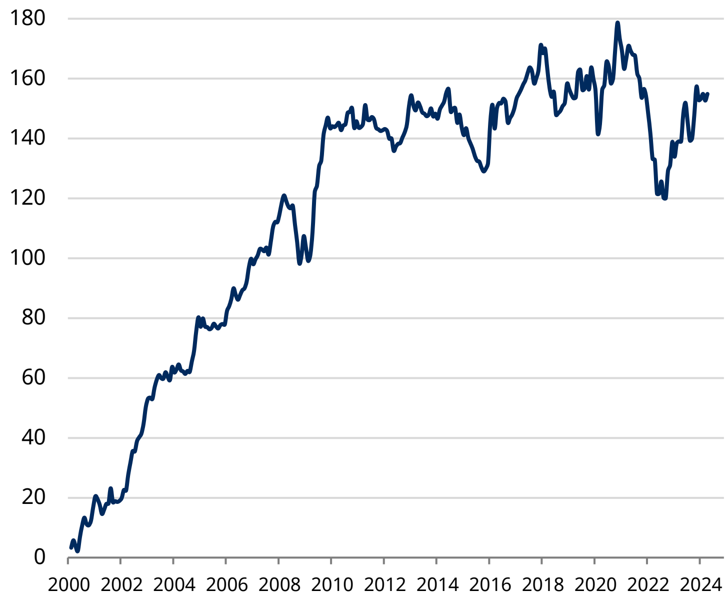
- These positive global macro trends that we have been highlighting over the course of the last 12-18 months are eclipsed currently by the political uncertainties that resulted from recent elections. In Indonesia and India, we reiterate our view that policy continuity will prevail and we retain our long-held bullish view on these local debt markets where 10-year yields are currently around the 7% mark in both countries. In South Africa and Mexico, the outcomes of the general elections are far from ideal but with 10-year government bond yields at 12% and 10.2% respectively, investors are more than compensated for the policy uncertainty.
- In South Africa and Mexico, we expect policy pragmatism to continue once new governments are formed. South African and Mexican central banks are also independent institutions that have established good monetary policy credibility. This combined with manageable sovereign external positions should lead to a stabilisation in these markets very soon. However, we have been hedging Mexican Peso exposures as this currency does not appear attractive from a valuation standpoint given its significant outperformance of the last 2-3 years, which led to a substantial real effective exchange rate appreciation.

Fund performance as at 31 May 2024 (%):

Past Performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

USD A accumulation shares net

Since Jan 2000[1]	Fund	GBI-EM GD[2]	EMBI GD
Annual rate of return	**3.92**	5.91	7.11
Volatility	**6.23**	11.36	8.94
Sharpe ratio	**0.37**	0.42	0.64
Sortino ratio	**0.62**	0.59	0.68
Correlation	**1**	0.78	0.68
Positive quarters	**61.46**	63.54	69.79
Maximum drawdown	**-21.02**	-29.32	-25.85
Best month	**6.34**	9.84	7.59
Worst month	**-5.54**	-14.07	-16.03
Max 12m rolling return	**27.66**	38.87	41.56
Min 12m rolling return	**-17.72**	-21.54	-24.28



Source: Schroders. [1]Inception 31 January 2000. [2] JPM EMBI Global Diversified used as a proxy before 31/12/02 at which point GBI-EM Global Diversified launched.

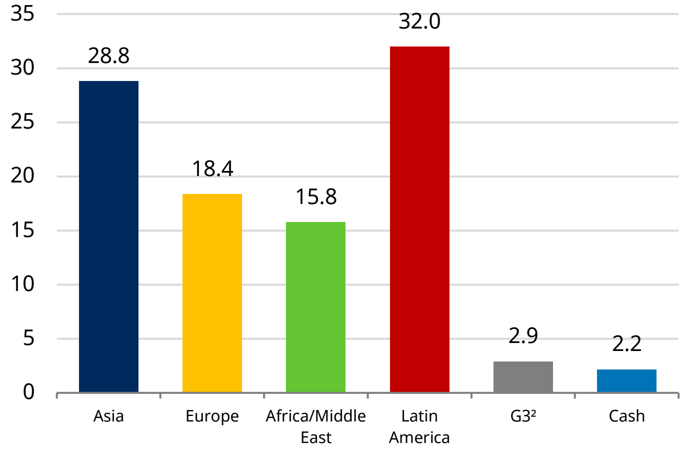
Please note the Fund is an absolute return fund therefore, the EMD indices are for illustrative purposes only.

%	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2000[1]		3.30	2.40	-1.90	-1.52	4.66	3.55	2.35	-1.89	-0.39	1.36	3.97	16.75
2001	3.18	-0.77	-1.59	-2.59	1.24	1.67	0.12	4.30	-3.78	0.31	-0.24	0.31	1.90
2002	0.78	2.25	-0.15	4.34	3.14	2.90	-0.07	2.54	0.94	0.86	2.37	3.80	26.31
2003	1.86	0.24	-0.30	2.50	1.66	0.99	-0.64	-0.12	1.34	-0.98	-0.64	2.75	8.93
2004	-1.14	0.63	1.03	-1.19	-0.23	-0.52	0.64	-0.23	2.19	2.14	3.91	2.60	10.13
2005	-1.76	1.58	-1.50	-0.11	-0.42	0.26	0.79	-0.52	-0.37	0.63	0.21	-0.10	-1.34
2006	2.51	0.92	1.32	1.90	-1.18	-0.84	0.85	0.84	0.34	1.23	2.47	1.42	12.36
2007	-0.93	0.85	0.65	1.07	-0.09	-0.28	0.60	-1.14	2.18	2.36	0.80	-0.04	6.11
2008	1.36	1.73	1.07	-0.84	-0.85	-0.26	0.39	-2.91	-2.78	-3.45	1.41	3.15	-2.20
2009	-1.89	-2.15	1.03	3.80	6.34	0.97	2.95	0.85	3.60	1.35	1.07	-1.43	17.39
2010	0.27	-0.11	0.27	0.30	-0.99	0.65	0.15	1.56	0.11	0.52	-2.64	0.92	0.96
2011	-0.87	0.08	0.46	2.55	-1.89	-0.11	0.42	-0.30	-1.17	-0.19	-0.23	0.12	-1.21
2012	0.15	-0.27	-1.08	0.04	-1.71	0.59	0.39	0.12	0.78	0.70	1.08	2.59	3.38
2013	1.37	-1.39	-0.59	1.05	-0.48	-0.82	-0.19	-0.34	0.23	0.83	-1.08	0.38	-1.08
2014	-0.68	1.21	0.56	0.56	1.18	-0.55	-0.59	1.59	-2.94	0.41	0.07	-1.97	-1.24
2015	1.14	-1.77	-1.03	0.97	-1.34	-0.78	-0.74	-1.02	-0.68	-0.12	-0.84	-0.57	-6.61
2016	0.41	0.85	5.75	2.47	-3.16	2.72	0.76	-0.04	0.62	-0.43	-2.72	0.58	7.76
2017	1.36	1.29	0.59	0.57	0.67	0.54	0.90	0.76	-0.46	-1.58	0.70	1.06	6.55
2018	3.14	-0.98	0.54	-2.50	-2.34	-1.23	0.64	-2.98	0.23	0.32	0.62	0.45	-4.17
2019	2.51	-0.70	-0.71	-0.49	0.14	3.26	0.34	-2.56	0.18	1.63	-1.73	2.86	4.66
2020	-1.41	-1.59	-5.54	1.30	4.62	0.66	3.02	-0.56	-2.17	0.69	3.83	3.17	2.44
2021	-1.89	-1.47	-2.28	1.31	1.58	-0.61	-0.49	-0.12	-2.22	-0.92	-2.19	1.16	-7.94
2022	-0.93	-2.34	-2.66	-3.48	-0.15	-4.84	0.00	1.83	-2.42	-0.04	4.09	0.92	-9.88
2023	3.32	-2.08	1.91	0.27	0.00	3.88	1.44	-2.59	-2.47	0.31	3.21	3.85	11.30
2024	**-1.73**	**0.16**	**0.64**	**-0.87**	**0.88**								**-0.95**

Source: Source: Schroders. [1]Inception 31 January 2000. Typical ongoing charges for A shares are 1.86%.

Fund positioning as at 31 May 2024 (%)

	US$ Debt	Local Debt	FX[1]	Total
Latin America				
Argentina	1.4			**1.4**
Bahamas	0.6			**0.6**
Brazil	1.1	8.2	-1.9	**9.3**
Chile	0.1		5.0	**5.1**
Colombia	0.4	3.5		**3.9**
Costa Rica	0.6			**0.6**
Ecuador	0.9			**0.9**
Mexico	0.6	9.7		**10.3**
Asia				
China	1.4			**1.4**
India	0.3	7.2		**7.5**
Indonesia		9.3	-1.2	**9.3**
Malaysia			7.1	**7.1**
Pakistan	1.9			**1.9**
Singapore	0.2			**0.2**
Thailand			1.4	**1.4**
Central Eastern Europe				
Czech Republic			2.1	**2.1**
Greece		0.1		**0.1**
Hungary	1.1	5.8	-1.4	**6.9**
Latvia		0.3		**0.3**
Poland		3.3	-1.6	**3.3**
Romania	0.2	0.5		**0.7**
Slovenia		0.1		**0.1**
Turkey	1.5	0.9	2.3	**4.7**
Ukraine		0.1		**0.1**
Africa and Middle East				
Burkina Faso	0.5			**0.5**
Egypt	1.2	1.1		**2.3**
Ivory Coast	1.7			**1.7**
Kenya	0.5			**0.5**
Nigeria	1.3		0.5	**1.8**
Senegal	1.2			**1.2**
South Africa	1.1	6.1	-2.0	**7.2**
Tanzania	0.1			**0.1**
Zambia	0.4			**0.4**
Total EM	**20.3**	**56.2**	**18.4**	**94.9**
G3				
Long-term US Treasuries			**2.9**	**2.9**
Cash				**2.2**
Grand Total	**20.3**	**56.2**	**21.3**	**100.0**



Fund Summary (%)

Yield to maturity	9.1
FX exposure	66.1
Duration (years)	4.4
Average credit rating	BBB
Corporate bond exposure	6.73
Current yield	6.04
No. of holdings	100
Fund AUM	US$ 1,000m
EMD TR strategy AUM	US$1,957m

Source: Schroders.

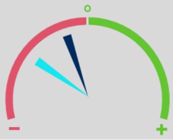
[1] FX positions in red are hedges of local debt positions. FX positions in black are outright long FX forward positions. Total includes only active long outright FX forwards and NDFs and excludes hedges of local debt.
[2] Can include short and long dated government securities issued in G3 countries. Difference in some numbers due to rounding.

ESG:

Proprietary sustainability metrics (SFDR Article 8)

Schroder ISF EMD Total Return ESG – 31 May 2024

Fund coverage: 99%. Reference benchmark coverage: 99%

	Fund	Reference sustainability benchmark
Overall impact 	-1.9%	-3.6%
Environmental impact 	-1.8%	-2.6%
Social impact 	-0.0%	-0.7%
Governance impact 	-0.1%	-0.3%

Source: Schroders – 31 May 2024. The Schroders Impact score is based on Schroders' proprietary tool, SustainEx. Overall impact is an indication of the fund's impact compared to its benchmark. All holdings exclude cash and currency holdings. Impact on People indicate the fund's underlying benefits and harms compared to its benchmark. Metrics shown are a sample of the total underlying metrics. See definitions slide for more details. Benchmark data 50% JP Morgan EMBI Global Diversified (USD Unhedged) and 50% JP Morgan GBI EM Global Diversified (USD Unhedged).

Risk considerations:

Bond Connect risk: The fund may be investing in the China Interbank Bond Market via the Bond Connect which may involve clearing and settlement, regulatory, operational and counterparty risks. **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. **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:** The fund may lose value as a result of movements in foreign exchange rates, otherwise known as 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 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 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. **Issuer risk:** The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following country: United States of America. **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. **No capital guarantee risk:** Positive returns are not guaranteed and no form of capital protection applies. **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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