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| Schroder ISF\* EURO High Yield  Fund Manager: Hugo Squire | Fund update: June 2025 |

Market overview

* Geopolitical headlines dominated news flow during June, with the conflict in the Middle East and a spike in oil prices driving market uncertainty.
* Credit markets were resilient to ongoing geopolitical risks, and market volatility actually fell to the lowest in a year following the ceasefire between Israel and Iran. Given the resurgent appetite for risk, high yield (HY) corporates outperformed their investment grade (IG) counterparts in both the euro and dollar-denominated markets. There was a substantial volume of new issuance in the euro HY market during June, as issuers front-loaded their activities before the summer break, capitalising on favourable market conditions.
* European central banks continued to ease monetary policy conditions with interest rate cuts by the Norwegian, Swedish and Swiss central banks alongside the European Central Bank (ECB). While the ECB’s 25 bps rate cut was expected, the significant development was in President Lagarde signalling that they have now ‘nearly concluded’ their rate cutting cycle.
* Accordingly, investors scaled back expectations for further interest rate cuts, with just one additional reduction now anticipated during the second half of the year. Attention is now shifting away from monetary policy towards the potential impact from fiscal policy.
* Although concerns over an imminent recession remain low as monthly eurozone composite PMI (purchasing managers index) is still anchored above the expansionary threshold, growth throughout the region is still muted. So far, there is little sign of tariff-related inflation with the eurozone core consumer price index remaining steady at 2.3% in June. Significantly, the strength of the euro year-to-date against the US dollar appears to be offsetting any wider price pressures.

Drivers of fund performance

* The fund posted a positive total return, outperforming the ICE BofA Euro High Yield Constrained index in June.
* Exposure to the financial services, banking and insurance sectors made a positive contribution over the month.
* In financial services, the holding in Lowell was a key contributor following a debt restructuring which resulted in a small cash payback and the reinstatement of bonds into two new notes.
* In real estate, the holding in CPI Property Group performed well following a tender offer to exchange its euro hybrid subordinated and Singapore dollar bonds.
* In the services sector, the holding in House of HR was additive as a leading private investment company became the new majority owner of the recruitment firm.
* The main detractor over the month was the holding in German cable operator Tele Columbus. First quarter results highlighted some stabilisation in revenues although its TV customer base continues to decline, due largely to a regulatory change.

Portfolio activity

* We participated in several new issues in June. We purchased a holding in senior secured paper from Italian technology group Alma Viva. The company operates in the IT services market, with a backlog of services contracts which should underpin revenues over the medium-term as digitalisation is rolled out over several sectors including transportation.
* We initiated a holding in senior secured bonds from telecom infrastructure company FiberCop, a spin-off from Telecom Italia, with a BB-rating.
* In the transportation sector, we added a holding in secured senior bonds from a subsidiary of an energy infrastructure company Yinson Holdings. The issue finances a floating, production, storage and offloading (FPSO) unit to support an oilfield off the coast of Brazil on a long-term leasing contract. The bonds offer a yield premium, with the added benefit of predictable cash flow throughout the duration of the lease.
* We also participated in a new issue from footwear group Sketchers, part of a debt package to fund its acquisition by 3G Capital. Sketchers is one of the leading global footwear groups with a strong focus on value and has been expanding its international presence.
* Our holding in specialist mortgage lender Jerrold Finco was redeemed, while we took profits on the holding in satellite operator Eutelsat and sold down positions in pub companies Punch Taverns and Stonegate.

Outlook/Positioning

* The immediate prospects for the eurozone economy are heavily contingent on the outcome of trade negotiations with the US, the impact of higher fiscal spending and more accommodative monetary conditions. Although conditions in the manufacturing sector remain challenging, the eurozone PMI is signalling potential expansion with the latest survey for June highlighting expansion across the manufacturing and services sectors. This improvement appears to be a response to the European Commission’s recent relaxation of fiscal rules, allowing for additional spending on defence. Furthermore, Germany’s easing of the ‘debt brake’, alongside the recent announcement of a €500bn infrastructure and defence fund, has increased optimism within the manufacturing and industrial sectors.
* Inflation is expected to decline further based on lower energy prices and the weaker US dollar.
* We also expect corporate fundamentals to remain stable and the default rate to stay low.
* Monetary policy should continue to provide some support for bond markets, with interest rates projected to stabilise around 1.75% by the year end.
* Bond markets have already responded sharply to the change in outlook. The market moves in recent weeks lead us to maintain a strong emphasis on quality and a generally cautious approach to investing in more cyclical sectors, particularly autos and basic industries. Going forward, we are looking for opportunities in companies with business models that are mostly insulated from the trade uncertainty. We see healthy dispersion in the high yield market.
* Although spreads have tightened considerably in recent months, a combination of lower interest rates, positive carry and idiosyncratic opportunities should underpin total returns from the European high yield market over the second half of the year.

*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.*

Calendar year performance (%)

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|  | **A Acc** | **I Acc** | **Target** |
| 2024 | 10.9 | 12.3 | 8.6 |
| 2023 | 11.8 | 13.1 | 12.0 |
| 2022 | -13.9 | -12.9 | -11.5 |
| 2021 | 4.5 | 5.8 | 3.3 |
| 2020 | 4.2 | 5.6 | 2.7 |
| 2019 | 9.8 | 11.1 | 11.2 |
| 2018 | -5.5 | -4.4 | -3.6 |
| 2017 | 6.7 | 8.0 | 6.7 |
| 2016 | 10.0 | 11.4 | 9.1 |
| 2015 | 3.5 | 4.8 | 0.7 |

Source: Schroders, as at 31/12/2024. All performance net of fees (where applicable), NAV to NAV (bid to bid), EUR. Target : ICE BofA Euro High Yield Constrained Index.

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.
* **Currency risk / hedged share class:** 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. 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.
* **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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