

Schroder ISF* Global Convertible Bond

Fund Managers: Dorian Carrell and Dominique Braeuninger | Fund update: March 2025

Backdrop and outlook

- The global financial landscape was disrupted by rising geopolitical tensions over the month, with the US government imposing a 25% tariff on imports from Canada and Mexico, while increasing tariffs on Chinese goods from 10% to 20%. This move prompted swift retaliatory actions from the affected countries, leading to considerable market volatility.
- US equities fell further from their lofty heights, fuelled by investor concerns about the potential for stagflation - a scenario characterised by rising inflation and slowing economic growth. European equities could not escape the turmoil, sliding almost 4%, although still comfortably ahead of the US year-to-date. Emerging market equities were the bright spot, with gains driven by China where renewed policy support from Beijing helped restore investor confidence.
- Turning to credit, corporates in both the US and Europe were broadly weaker, with the tailwind from falling government bond yield offset by spread widening across both investment grade and high yield.

Drivers of Fund Performance

- The fund outperformed its benchmark in March.
- Our attribution analysis shows a positive allocation effect from our underweight positioning in the US, and overweight positioning in Europe.
- On a sector level, our overweight to energy and our underweight to communication services added to relative performance, while our underweight in utilities detracted from relative returns.
- Our overweights in **Gold Pole Capital** and **ENI** were among the largest contributors in March. On the other hand, our overweights in **Global Payments** and **Affirm Holdings** detracted from relative performance.

Portfolio Activity

- In Asia, we reduced exposure, taking profits in **Alibaba** and **Xiaomi** and trimmed **Gigabyte** and **Lenovo**.
- These positions were marginally offset through increased defensive exposure in the logistics market leader, **ZTO** and an opportunistic addition of the global hotelier, **H World**.
- Similarly, in Europe, our favoured region, we took profits in **Safran** but added exposure in **Siemens Energy**, **ICAG** (the parent of British Airways), **Fresenius** and **Wendel**. These additions were part of a structural tilt to a market where we believe the valuations of both convertibles and their underlying equities remain attractive,
- In the US, we retained our underweight stance, with the one addition of note being a small position in **Cloudflare**.

Outlook

- Convertibles have held up relative to equities and bonds year to date, reversing a challenging 2024.
- Heightened policy uncertainty is likely to drive US growth down and inflation up.
- In terms of valuations, international markets look most attractive, both from a convertible and an underlying equity perspective.
- US markets have enjoyed a valuation premium but, going forward, we believe the phrase 'US exceptionalism' is likely to take on a different meaning.
- Trump's policies appear to be having an unintended MEGA effect, potentially 'making Europe great again'.
- Convertible redemptions and maturities are manageable, likely through refinancing as demand is still strong.
- Clear catalysts also exist for Asian and Japanese markets, where convertible valuations mean investors are paid to wait for an eventual recovery.

Calendar year performance (%)

Year	Fund (A Acc)	Fund (I Acc)	BM
2024	5.4%	7.0%	8.6%
2023	7.0%	8.7%	9.8%
2022	-18.9%	-17.6%	-16.0%
2021	-3.3%	-1.8%	-1.1%
2020	24.0%	25.0%	22.8%
2019	12.4%	14.1%	13.1%
2018	-5.1%	-3.6%	-3.0%
2017	7.4%	9.0%	6.0%
2016	1.6%	3.2%	1.6%
2015	3.1%	4.8%	3.8%

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), USD, as at 30/12/2024. The fund's performance should be assessed against its target benchmark, being to exceed the FTSE Global Focus Hedged Convertible Bond Index (USD). 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 target benchmark.

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 the amount originally invested. 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

- **Currency risk:** The fund may lose value as a result of movements in foreign-exchange rates.
- **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 markets & frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- **Interest-rate risk:** The fund may lose value as a direct result of interest-rate changes.
- **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 macroeconomic environment, investment objectives may become more difficult to achieve.
- **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.
- **Credit risk:** A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **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.
- **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.
- **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.
- **Market risk:** The value of investments can go up and down, and an investor may not get back the amount initially invested.

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