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# Schroder ISF* Global Convertible Bond

**Fund Managers: Dorian Carrell and Dominique Braeuninger | Fund update: May 2025**

## Market review

- Global markets advanced in May**,** supported by easing trade tensions following a temporary US-China tariff truce. However, attention quickly shifted to US fiscal sustainability, prompting a rise in global sovereign yields and volatility across asset classes.
- Equities recovered broadly, with US, Eurozone, UK and Japanese shares posting gains. US technology and consumer sectors outperformed, while healthcare lagged on pricing reforms. Emerging markets rose on improved risk sentiment, though they trailed developed peers.
- Fixed income markets were volatile**,** as rising concerns over US debt pushed Treasury and other high-deficit market yields higher. European core government bonds saw only modest yield increases. Credit spreads tightened in the US, with high yield outperforming on positive risk appetite, while commodities gained modestly and gold prices declined.

## Drivers of Fund Performance

- The fund outperformed its benchmark in May, primarily driven by strong performance from information technology holdings.
- From a regional perspective, an underweight allocation to the US was the largest contributor to active performance. Overweight positions in Asia and Europe were also beneficial, while the overweight in Japan was broadly flat.
- At the sector level, the overweight position in information technology was the largest contributor to active performance. The underweight in communications and overweight in industrials also added value. However, stock selection within materials and the underweight in real estate marginally detracted from returns.
- Allocations to **Echostar** and **Wiwynn** were the leading contributors over the month. In contrast, positions in **Stillwater Mining** and **Zscaler** negatively impacted relative performance.

## Portfolio Activity

- Our new issue participation had a decidedly European flavour, convertible into **ASML, Euronext** and **Ferrari** (with the unforgettable ticker, RACE). Elsewhere, we made modest allocations to names in the technology, healthcare, consumer and utilities sectors.
- From a regional perspective other notable additions were, for the most part, in the US where we had been running a considerable underweight.
- A mixture of cloud, fintech and one healthcare name rounded out our buying activity in the secondary market, all of which were based on a combination of attractive fundamental valuations, and compelling growth prospects.
- Turning to sells, we parted company with a couple of long-standing favourites. Taking profits on both Singapore's exciting gaming/fintech, **Sea Ltd**, and cloud based security play, **Zscaler** after a strong run in both names. Finally we slightly reduced a Hong Kong gaming name as well as a couple of very defensive securities in US healthcare and Japan**.**

## Outlook

- Convertibles have held up well relative to equities and bonds year to date, reversing a challenging 2024.
- Convertibles less concentrated nature has resulted in equivalent performance to global equities in 2025, with considerably lower volatility
- Heightened policy uncertainty is likely to drive US growth down and inflation up.

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

- In terms of valuations, European, Aian and Japanese 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 may well 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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