Schroders

Marketing material for professional clients only

Schroder ISF* EURO High Yield

Fund Manager: Hugo Squire | Fund update: November 2025

Market overview

- Events in the US were the main influence on credit markets during November. Initially markets weakened as the Federal Reserve (Fed) adopted a more hawkish tone on monetary policy, while high issuance volumes from major US technology companies to fund AI-related investment also weighed on sentiment.
- Subsequently, weaker US economic indicators combined with a more dovish tone from the Fed paved the way for additional interest rate cuts and triggered a rally over the second half of the month.
- In high yield markets, US dollar denominated credit outperformed euro-denominated issues over the month. In Europe, there was significant weakness in the insurance, basic industries and technology sectors, while spreads tightened in the real estate, financial services and autos sectors.
- In European investment grade markets, spreads widened over the month as investors digested record new issuance volumes for November. BBB-rated and higher yielding securities lost ground, as did corporate hybrids.
- There was further evidence of an improvement in the eurozone economic backdrop heading towards the end of the year. The Composite Purchasing Managers Index (PMI) for November highlighted the strongest expansion in private sector activity in two and a half years. This momentum was underpinned by the strength of the services sector activity, while in contrast there was a slowdown in manufacturing amid signs of renewed demand-side weakness.
- Services sector activity is currently the principal driver of headline inflation, which came in marginally higher than expected for November at 2.2%, and above the European Central Bank's (ECB) 2% target for the third consecutive month. The ECB is expected to leave interest rates on hold in December, with investors anticipating that the cycle of rate reductions, which began in June last year, has now run its course.

Drivers of fund performance

- The Fund posted a positive total return, outperforming the reference benchmark during November.
- Security selection within the financial services sector made a positive contribution to returns. The holding in UK debt collector Lowell rebounded, after the company announced that it had secured additional asset-backed financing.
- Our holding in payments processor Worldline also rebounded, following a positive capital markets day, as a programme of asset disposals and equity funding have improved sentiment on the company's credit outlook.
- In the real estate sector, the holding in commercial developer Emeria – which operates under the Foncia brand in France – was a key contributor on news that the company is planning an equity fund raising to deleverage its balance sheet.
- In the healthcare sector, the holding in Cerba made a positive contribution as investors reacted positively to an injection of liquidity prior to a potential restructuring.
- Exposure to the leisure sector, specifically UK gaming companies, detracted in the run up to the Autumn budget, which heralded a near-doubling of online gaming duty from April 2026.

Portfolio activity

- During November, we focused on increasing the credit quality of the portfolio through a reduction in exposure to CCC-rated securities while adding to the proportion held in BB-rated issues.
- We exited the holding in Swedish real estate group SBB, after the bonds had rallied following the announcement that the company had agreed the sale of its care home portfolio.
- We also sold our holding in the debt financing vehicle for UK supermarket Asda. Heavy price discounts in the highly competitive food retailing sector have diluted earnings without an accompanying increase in market share.

*Schroder International Selection Fund is referred to as Schroder ISF throughout the document.

- In the primary market, we participated in a new issue of senior secured BB-rated bonds from Spanish supermarket chain Eroski, to prepay subordinated bonds and other existing loans.
- In the energy sector, we acquired a holding in a new issue of medium-dated senior secured first lien bonds from Odfjell to refinance existing debt. The company focuses on drilling services in the oil and gas industry.
- We added a holding in packaging group Ardagh, following a recent restructuring, with the issue priced on an attractive credit spread.
- With credit spreads in the high yield market now at substantially tighter levels, we continue to hold a significant proportion of the portfolio in investment grade bonds, mainly BBB-rated securities, which act as a buffer against market volatility.
- Relative to the reference benchmark, the Fund has an overweight allocation to the real estate, energy and financial services sectors. Significant underweight allocations are in autos, telecoms and basic industries.

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.
- Notwithstanding geopolitical developments, we also expect corporate fundamentals in the eurozone to remain stable and the default rate to stay relatively low in comparison with the US.
- However, we are mindful that credit spreads in euro high yield, at index level measured over government bonds, are expensive relative to historic levels. Accordingly, we continue to place a greater emphasis on higher quality credit, with an element of exposure to cash and sovereign debt awaiting investment opportunities in the euro credit markets.
- We also remain focused on identifying idiosyncratic opportunities that can provide strong total returns in a variety of market environments, particularly among BB and B-rated issues which could prove to be a fertile hunting ground for active investors over the coming months.

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 (%)

	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.

Important information