Schroder ISF Sustainable EURO Credit

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Fund update: October 2025
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Market Review

European credit spreads tightened modestly during October, underpinned by a strong technical backdrop with continuing fund inflows into the euro-denominated investment grade market.

The third quarter earnings season in Europe has depicted a mixed picture. Results for the banking sector were better-than-expected, highlighting a further expansion of net interest margins. In contrast, several cyclical sectors exhibited weakness. Notably chemicals, where the impact of overcapacity and higher energy costs continues to erode margins, and the autos sector which faces headwinds from US tariffs and weaker demand in China.

In contrast to European markets, spreads on US investment grade widened as the collapse of two US firms – First Brands and Tricolor – fuelled concerns about residual risk in the private credit market. High volumes of new issuance from major US technology companies to fund AI-related investment also weighed on sentiment.

October's European Central Bank (ECB) meeting was uneventful, with interest rates held at 2% as expected. French politics remained in the spotlight, with Prime Minister Lecornu's resignation then subsequent reappointment. He later survived two votes of no-confidence following concessions on pension reforms. S&P downgraded France's sovereign rating to A+ (previously AA-) citing ongoing political instability.

Third quarter economic growth for the eurozone was slightly better-than-expected while inflation remains broadly in line with the ECB's 2% target. The Eurozone Composite Purchasing Managers Index (PMI) for October recorded its strongest expansion in 17 months, with a sharp acceleration in services sector activity, although manufacturing output registered only a slight increase.

Drivers of Fund Performance

The fund delivered positive returns over the month but slightly underperformed the reference index (net of fees).

Given broad based spread tightening in EUR IG credit market, sectors where we were overweight were positive for active returns, and underweight exposure detracted.

Security selection in basic industry and services detracted, as did off-benchmark exposure to USD-denominated technology and electronics.

Credit carry was positive for active returns, as was the fund's slight underweight duration stance relative to the benchmark. Security selection in subordinated financials and AT1 exposure were additive.

Portfolio Activity

Throughout the month, we increased our exposure to retail, technology and utilities. In contrast, we reduced our exposure to senior banking and financial services, real estate, tier 2 banking, healthcare and transportation.

Our investment strategy focuses on a broad range of sustainable themes and bonds, including waste recycling and biodiversity, sustainable infrastructure, the circular economy, and responsible consumption. We also prioritize opportunities in decarbonizing technology and health and education. In alignment with our commitment to sustainability, we exclude investments in fossil fuels, weapons, alcohol, tobacco, and companies that violate the UN Global Compact.

We decreased our exposure to BBB-rated issuers and shifted toward investment grade, focusing on AAA and A-rated names. Some cash was held in AAA for future opportunities.

We made an investment in an insurance firm that has a net zero policy and detailed guidelines regarding investment in and insurance of fossil fuel industry activities with high emissions. In addition, we purchased green bonds from a Spanish multinational utility company whose power generation portfolio is primarily carbon-free and includes substantial investments in renewable energy.

Elsewhere, we remain invested in our preferred responsible finance names, including green, social, and sustainability-linked bonds issued by UK and European companies.

The fund's carbon emissions intensity, as measured by tonnes CO2e per $mn sales (scope 1 and 2 emissions), is less than half that of the reference index. Additionally, our overall SustainExTM impact score remains significantly higher, as we strive to identify improvers, limit laggards, conduct ESG research, utilize tools, and focus on positive sustainability themes.

Outlook/positioning

We remain moderately positive on the economic outlook for the eurozone. Manufacturing growth is improving from low levels, however we don't see a broad recovery yet and the order to inventory ratio in many sectors is still negative. However, 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, while inflation measures suggest an underlying trend that is hovering around or slightly above its 2% target.

Notwithstanding geopolitical developments, we also expect corporate fundamentals to remain stable and the default rate to stay relatively low.

In terms of the technical picture, we see little change on the horizon with structural demand from institutional investors for euro-denominated credit likely to remain a supportive feature, with the investment grade market offering a yield pick-up over deposit rates.

However, we are mindful that credit spreads at index level measured over government bonds are expensive relative to historic levels, with the US investment grade credit market now trading on a higher spread than euro-denominated credit. Accordingly, we have a strong emphasis on credit quality.

Cognisant of market valuations, we have positioned the portfolio more defensively, while still picking up good carry, in view of the risk of a widening of credit spreads particularly if we reach a turning point on inflows into the euro investment grade market.

Calendar yearly performance (%)

Past performance does not predict future returns.

Period	Fund C Acc EUR	Benchmark[1]
2024	5.6	4.7
2023	8.3	8.0
2022	-12.4	-13.9
2021	0.7	-1.0
2020	5.6	2.6

Source: Schroders, Morningstar, as of 31 October 2025. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. 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. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed. The Fund's investment universe is expected to overlap materially with the components of the target benchmark. 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. The investment manager will invest in companies or sectors not included in the target benchmark in order to take advantage of specific investment opportunities.

[1]Benchmark refers to ICE BofA Euro Corporate TR EUR.

Performance snapshot (%)

Past performance does not predict future returns.

	1 Month	3 Months	YTD	1 Year	3 Years p.a.	5 Years p.a.	Since Inception
Fund C Acc EUR	0.6	1.2	3.7	5.1	6.4	1.6	1.7
Benchmark[1]	0.7	1.1	3.5	4.7	5.8	0.2	0.3

Source: Schroders, Morningstar, as of 31 October 2025. Performance shown is based on the currency of the share class shown and is net of fees. Please see factsheet for other share classes. 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. **Exchange rate changes may cause the value of investments to fall as well as rise.** Performance data does not take into account any commissions and costs, if any, charged when units or shares of any fund, as applicable, are issued and redeemed.

[1]Benchmark refers to ICE BofA Euro Corporate TR EUR.

Investment Overview

The fund aims to provide capital growth and income in excess of the ICE BofA Euro Corporate TR EUR after fees have been deducted over a three to five year period by investing in bonds denominated in Euro issued by companies worldwide, which meet the investment manager's sustainability criteria.

Risk considerations

ABS and MBS risk: The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.

Contingent convertible bonds: The fund may invest in contingent convertible bonds which are bonds that convert to shares if the bond issuer's financial health deteriorates. A reduction in the financial strength of the issuer 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: 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: If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in 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 for investment purposes and/ or 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.

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.

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.

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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