

Schroder ISF Sustainable EURO Credit



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Fund update: December 2025

Marketing material for professional clients only.

Market Review

Government bonds were the main influence on credit markets during December with yields across the major government bond markets generally increasing. Although the Federal Reserve (Fed) cut interest rates by a further 25 basis points as expected, the release of better-than-expected Q3 US GDP growth contrasted with softer job growth and rising unemployment. Recent labour market data suggested a moderation - but not a collapse - in labour demand, with the low hire, low fire trend continuing.

In European credit markets, spreads closed unchanged month over month as the primary market was quiet and liquidity dried up ahead of the year-end, traditionally a time when trading volumes are low.

The European Central Bank (ECB) kept interest rates on hold as expected, while upgrading their forecasts for growth and core inflation. The bond markets anticipated the next move by the ECB to be a rate hike following hawkish comments by board member Isabel Schnabel. German bund yields were driven higher by the announcement that issuance levels in 2026 are set to be substantially above forecast, €500bn as against consensus estimates for €300bn.

The Flash Composite Purchasing Managers Index (PMI) for December highlighted that although the eurozone economy lost some momentum as the year ended, activity in the services sector remained robust. However, there were signs of a renewed downturn in the manufacturing sector with a decline in new orders for the second consecutive month. Nevertheless, the PMI signalled an expansion in activity overall and in Q4 as a whole the eurozone's best performance since the second quarter of 2022.

The preliminary estimate for December indicated that consumer price inflation returned to its 2% target, reflecting a modest easing of pricing pressures in the services sector - which had been the principal driver of headline inflation - and reinforcing expectations that interest rates are likely to remain on hold over the coming months.

Drivers of Fund Performance

The fund delivered negative returns over the month but outperformed the reference index (net of fees).

Credit carry and rates contributed positively to active returns, as did security selection. Notably, investment decisions within the utilities, basic industry, junior subordinated banking, and senior financial services sectors had a favourable impact.

In contrast, underweight allocations to energy and consumer non-cyclicals detracted.

Portfolio Activity

Throughout the month, the fund increased its exposure to senior financial services, AT1 banking and utilities, but reduced holdings in real estate and tier 2 banking.

The 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

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Global Compact.

The fund added to highly rated issuers, notably in AAA and A rated issuers. We have parked liquidity in AAA-rated German bunds, waiting for new opportunities in January. In single-A, the fund purchased new green bond issues from a real estate investment trust (REIT) specialising in owning, managing, and developing logistics, retail, and distribution properties across the United Kingdom. The proceeds will be used to finance environmental expenditures in green buildings and clean transportation.

The fund invested in new issues from a leading steel company in Europe that is committed to pursuing a circular economy. The core business is producing steel from ferrous scrap metal. The proceeds will be used to support the development of eco-efficient products, technologies and processes, by recovering and processing non-hazardous waste to be used as a substitution for virgin materials.

Elsewhere, the fund remains 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 SustainEx™ 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. 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.

Investors have adopted a broadly positive view on the impact from German fiscal stimulus, in the form of higher infrastructure and defence spending, on the growth prospects for the economy. However, there are clear risks that the multiplier effects from fiscal stimulus could prove be more limited than widely anticipated. Not least because the German government needs to address the issues of funding the state pension system, as well as healthcare provision, against a backdrop of a long-term decline in the workforce on current demographic trends.

Accordingly, we are placing a strong emphasis on credit quality with a clear preference for non-cyclical sectors, maintaining a cautious view on the prospects for cyclicals in the eurozone, particularly at a time when credit spreads at index level measured over government bonds are expensive relative to historic levels.

Cognisant of market valuations, we have positioned the portfolio 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
2025	3.4	3.0
2024	5.6	4.7
2023	8.3	8.0
2022	-12.4	-13.9
2021	0.7	-1.0

Source: Schroders, Morningstar, as of 31 December 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.

¹Benchmark 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	-0.1	0.3	3.4	3.4	5.7	0.8	1.6
Benchmark¹	-0.2	0.2	3.0	3.0	5.2	-0.2	0.3

Source: Schroders, Morningstar, as of 31 December 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.

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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.

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 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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