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Schroder ISF* Sustainable EURO Credit

Fund Manager: Saida Eggerstedt | Fund update: April 2025

Market review

- April was a volatile month for all financial assets, including global fixed income markets. So called 'Liberation Day' brought worse than expected news, with President Trump unveiling larger and broader-based tariffs than expected (a 10% tariff rate on all US imports and higher reciprocal tariffs for countries with which US has large trade deficit). Facing negative market ramifications, he later suspended some of the tariffs imposed on most nations for 90 days. Simultaneously trade tensions with China escalated.
- European government bond markets fared better than the US, with yields falling across all eurozone markets and in UK gilts. The European Central Bank lowered borrowing costs by 25 bps again in April, bringing the deposit rate to 2.25%. The key message was that disinflation is "well on track", while growth uncertainty has increased. While the Bank of England did not meet in April, market expectations for a cut in May increased. Survey data has weakened significantly, reflecting a combination of trade uncertainty and the impact of higher taxes.
- Credit markets have experienced significant fluctuations since the new tariffs were announced. In euro denominated credit, spreads peaked at their year-to-date wides before contracting back to elevated levels in both IG and HY. Total returns were positive in both and outperformed their US counterparts.

Drivers of fund performance

- The fund delivered positive returns over the month but underperformed the reference index (net of fees). Meanwhile, the fund continues to deliver on Sustainability performance metrics including a high SustainEx™ overall impact score and MSCI ESG rating.
- Security selection in senior banking, utilities, automotives, basic industry, real estate and senior financial services detracted. The fund's overweight exposure to triple-B and off-benchmark allocation to high yield names was also detrimental to relative returns.
- In contrast, off-benchmark exposure to European sovereigns, including green bonds, was positive for active returns given the market environment.

Portfolio activity

- Throughout the month, we increased our exposure to senior financial services and banking, media, technology and electronics, telecommunications and utilities. In contrast, we reduced our exposure to automotives, capital goods, real estate, consumer goods, healthcare and basic industry.
- 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.
- The largest additions over the month included a double-A rated American multinational technology company and several single A-rated US multinational banks and financial services companies. US financials have widened since 'Liberation Day' but have posted strong earnings.
- 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 CO_2e 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

- The outlook for economic growth in the Eurozone remains mixed. We expect that the positive impact from fiscal spending and looser monetary conditions will partially be offset by the negative impact from the trade conflict uncertainty, leading to low to moderate growth. On the other hand, inflation is likely to be contained, driven by a stronger EURO and lower energy prices. This backdrop will allow the European Central bank to perform more interest rate cuts in 2025. We also expect corporate fundamentals to remain stable and default rate to stay low.
- The volatility in April has improved valuations in EURO credit and the dispersion in the market. Going forward, we are looking for opportunities in high quality names that provide relative value after the experienced spread widening and retracement. In addition to that we also evaluate business models that are mostly insulated from the trade uncertainty. We see idiosyncratic opportunities in higher yielding issuers and single A-rated names.
- Overall, we remain very mindful of credit risk particularly in the light of the economic uncertainty. Going forward, a combination of positive carry and idiosyncratic opportunities should underpin total returns from European credit markets. For now, uncertainty persists,

*Schroder International Selection Fund is referred to as Schroder ISF throughout this document which makes an agile approach to portfolio construction crucially important.

Calendar year performance (%)

Past Performance is not a guide to future performance and may not be repeated.

The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

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.

	C Acc	A Acc	I Acc	Target**
2024	5.6	5.2	6.3	4.7
2023	8.3	7.8	8.9	8.0
2022	-12.4	-12.7	-11.8	-13.9
2021	0.7	0.3	1.3	-1.0
2020	5.6	5.2	6.2	2.6
2019	-	-	-	-
2018	-	-	-	-
2017	-	-	-	-
2016	-	-	-	-
2015	-	-	-	-

Source: Schroders, as at 31/12/24. All performance net of fees (where applicable), NAV to NAV (bid to bid), EUR. ** ICE BofAML Euro Corporate TR.

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.

Emerging markets & frontier risk: Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

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 the objective of sustainable investment. 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.

Important information

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The Company is a Luxembourg-based Société d'Investissement à Capital Variable (SICAV) with unlimited duration which is coordinated with regard to the European regulations and meets the criteria for Undertakings for Collective Investment in Transferable Securities (UCITS).

The total net asset value is published on the website of the Belgian Asset Managers Association (BEAMA) on www.beama.be. In addition, the tariff schedules are available from distributors in Belgium. The fee on the stock exchange transactions of 1.32 % (with a maximum of € 4,000 per transaction) is payable on the purchase or conversion of capitalisation shares if they are carried out by the intervention of a professional intermediary in Belgium. Dividends paid to natural persons who are Belgian tax residents are subject to a Belgian withholding tax at a rate of 30% if they are paid by the intervention of a financial intermediary established in Belgium (this information applies to all distribution shares). If the dividends are received by such natural persons without the intervention of a financial intermediary established in Belgium, they must indicate the amount of the dividends received in their tax return and will be taxed on that amount at a rate of 30%. In the event of the redemption or sale of shares of a sub-fund investing, directly or indirectly, either (i) more than 25% of its assets in receivables with regard to shares acquired by the investor before January 1, 2018, or (ii) more than 10% of its assets in receivables with regard to the shares acquired by the investor from 1 January 2018 (provided, in each of these two cases, that certain additional conditions are met), the interest component of this redemption or sale price is subject to a 30% tax in Belgium.

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The value of investments and the income from them may go down as well as up and investors may not get back the amounts 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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