

# Schroder ISF Strategic Bond



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**Fund update: October 2025**

Marketing material for professional clients only.

## Market Review

A combination of the US government shutdown, renewed tariff-related concerns, and the collapse of two US firms – First Brands and Tricolor – created a risk-off tone for bond markets in October. Global government bond market returns were positive, although a hawkish sounding US Federal Reserve (Fed) heralded some market retracement as the month ended.

Despite a generally encouraging earnings season, the souring of sentiment led to underperformance from high yield corporate bonds, with spreads widening in both US and European markets.

It was a mixed picture in investment grade markets, with US credit spreads widening over the month, but tightening modestly across Europe. Despite increased scrutiny around US regional bank exposures to non-bank financial institutions (NBFI), US financials performed broadly in line with other sectors overall.

The Fed cut interest rates by 25bps to 3.75%-4% in what was a split vote and announced an end to its programme of quantitative tightening (which was designed to shrink its balance sheet). However, the main surprise was in Fed Chair Powell's push back against market expectations of a further rate cut in December.

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.

## Drivers of Fund Performance

The Fund delivered a positive return but marginally underperformed the reference benchmark during October.

Credit selection was a small negative overall given the fund's exposure to higher beta names, however there were some marginal gains from underweights in underperforming names as credit spreads widened on idiosyncratic risk.

Curve steepening strategies in the US and eurozone detracted.

Asset allocation slightly offset the negative returns from credit selection. The Fund remains underweight spread duration.

Defensive positioning in US investment grade credit contributed but was offset by an overweight to euro-denominated high yield bonds, where spreads widened.

A favoured allocation to US agency mortgage-backed securities contributed.

## Portfolio Activity

We used the rise in Treasury yields following more hawkish-than-expected guidance from the Fed to reduce the underweight duration (interest rate risk) position, adding to US exposure.

In the eurozone, we closed an underweight to France versus Germany as the structural outlook for debt consolidation in France remains challenging, the near-term political risks in France had faded following concessions on pension reform.

Asset allocation remained defensive, with continued underweights to US dollar and euro-denominated investment grade credit.

We continue to look for opportunities within covered bonds, due to their liquid and defensive characteristics, adding a couple of holdings during the month which came to the primary market attractively priced.

We also favour US agency MBS, given their defensive characteristics, maintaining a preference for the higher quality carry available.

### Outlook/positioning

The US government shutdown, which has halted the release of several key economic indicators, adds uncertainty for the Fed and investors alike. Nevertheless, despite the risks we remain relatively positive on the US economic outlook as both fiscal and monetary easing pass through into the economy.

In the eurozone, the justification for further ECB interest rate cuts has diminished. Financial conditions remain loose, and lending standards continue to be relatively relaxed. While we remain relatively constructive on the outlook, we consider there is scope for markets to be disappointed.

In the US, credit spreads offer a limited cushion against any deterioration in the economic fundamentals. Isolated bankruptcies in the loan market indicate growing vulnerabilities across the credit spectrum.

Similarly, in the eurozone, where we remain moderately positive on the economic outlook as manufacturing growth is improving, albeit from low levels, while the labour market remains strong, we find corporate valuations expensive with better opportunities in shorter-dated maturities.

With credit spreads trading at historically tight levels, we remain defensively positioned, looking for opportunities within bond selection to enhance returns.

For yield, we continue to find value in securitised assets – including agency mortgage-backed securities and covered bonds.

### Calendar yearly performance (%)

Past performance does not predict future returns.

| Period | Fund I Acc USD | Benchmark <sup>1</sup> |
|--------|----------------|------------------------|
| 2024   | 6.3            | 5.3                    |
| 2023   | 8.2            | 5.0                    |
| 2022   | -4.2           | 1.5                    |
| 2021   | 0.6            | 0.0                    |
| 2020   | -0.1           | 0.7                    |
| 2019   | 9.0            | 2.3                    |
| 2018   | -1.7           | 1.9                    |
| 2017   | 2.5            | 0.9                    |
| 2016   | 4.2            | 0.3                    |
| 2015   | -2.3           | 0.1                    |

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. This fund has a target benchmark. The fund's investment universe is expected to overlap materially with the components of the comparator benchmark. The comparator benchmark is included for performance comparison purposes and does not determine how the investment manager invests the fund's assets. The investment manager will invest in companies or sectors not included in the comparator benchmark.

<sup>1</sup>Benchmark refers to ICE BofA US 3M Trsy Bill TR USD.

## Performance snapshot (%)

Past performance does not predict future returns.

|                         | 1 Month | 3 Months | YTD | 1 Year | 3 Years<br>p.a. | 5 Years<br>p.a. | 10 Years<br>p.a. | Since<br>Inception |
|-------------------------|---------|----------|-----|--------|-----------------|-----------------|------------------|--------------------|
| Fund I Acc USD          | 0.4     | 2.5      | 8.8 | 9.6    | 8.3             | 4.1             | 3.3              | 3.8                |
| Benchmark <sup>1</sup>  | 0.3     | 1.1      | 3.5 | 4.3    | 4.8             | 3.0             | 2.1              | 1.8                |
| Comparator <sup>2</sup> | 0.6     | 2.7      | —   | —      | —               | —               | —                | —                  |

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.

<sup>1</sup>Benchmark refers to ICE BofA US 3M Trsy Bill TR USD.

<sup>2</sup>Comparator refers to Bloomberg Multiverse ex Treasury A+ to B- USD Hedged Index.

## Investment Overview

The fund aims to provide capital growth and income in excess of the ICE BofA 3 month US Treasury Bill Index over a three to five year period after fees have been deducted by investing in bonds issued by governments, government agencies, supra-nationals and companies worldwide.

## 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.

**China risk:** If the fund invests in the China Interbank Bond Market via the Bond Connect or in China "A" shares via the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect or in shares listed on the STAR Board or the ChiNext, this may involve clearing and settlement, regulatory, operational and counterparty risks. If the fund invests in onshore renminbi-denominated securities, currency control decisions made by the Chinese government could affect the value of the fund's investments and could cause the fund to defer or suspend redemptions of its shares.

**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.

**Issuer risk:** The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following country: United States of America.

**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.

**No capital guarantee risk:** Positive returns are not guaranteed and no form of capital protection applies

**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.

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