Schroders

Strategic Credit

Strategy	Unconstrained total return focus, seeks both income and capital growth
Comparator	ICE BofA Sterling 3-Month Government Bill Index
Portfolio Manager	Peter Harvey
Inception	April 2006
Typical number of issuers	150 – 250
Investment Universe	Focus on BBB, BB and B rated corporate bonds, issued by companies based in Europe or with significant activities in the region.
Interest-rate duration	0 – 4 years
Average credit quality	Typically BB
SFDR	Article 8

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What makes this strategy different?

In the European credit sector, there are many managers who focus on the investment-grade or high-yield segments, but fewer who specialise in the middle of the credit spectrum. Strategic Credit is a "crossover" portfolio investing predominantly in BBB-rated and high-yield corporate bonds.

In terms of investment style, this is very much a bottom-up security picker's strategy. Portfolio construction is not constrained by a benchmark, and we aim to deliver most of our outperformance through security selection, with much less emphasis on macro and top-down views.

Focus on higher-quality high yield

The portfolio's largest weight is typically centred on the BB segment of the rating spectrum. We believe this to be the optimum point because it allows investors to capture many of the return benefits of noninvestment grade debt, but with a manageable level of default risk.

Structurally low interest-rate risk

We have a bias towards low duration, which helps limit the volatility of the portfolio and enables us to focus the bulk of our "risk budget" on sector allocation and stock selection, which are our key skills. Portfolio duration is limited to a maximum of four years but can be significantly shorter depending on the market environment.

The Schroders credit research culture

Themes-based approach

A defining feature of our credit research is the way we identify trends or scenarios that we believe will have a material influence on the business models of the issuers in our universe. These themes will play out over various time horizons. For example, income inequality is a theme we have been exploring since 2016.

For each trend, analysts across every industry (not just those most obviously affected) identify potential winners and losers in their sectors. This approach, systematically applied, helps uncover the kind of second and third-order effects that can generate differentiating investment ideas.

No silos across the credit spectrum

An unusual feature of the Schroders European credit research team is that it does not have separate high yield and investment grade departments. Industry experts cover issuers of all credit qualities. We believe this results in more integrated views and a deeper understanding of the competitive environment in which companies operate.

Proven track record

Peter Harvey has been managing the strategy since 2006, when it was first launched at Cazenove Capital, which was acquired by Schroders in 2013.

Risk considerations

Contingent convertible bonds: The portfolio may invest in contingent convertible bonds. A reduction in the financial strength of the issuer of such bonds may result in losses to the portfolio.

Counterparty risk: The portfolio may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the portfolio 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.

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 portfolio.

High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.

IBOR: 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 portfolio.

Interest rate risk: The portfolio may lose value as a direct result of interest rate changes.

Liquidity risk: In difficult market conditions, the portfolio may not be able to sell a security for full value or at all. This could affect performance and could cause the portfolio 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 portfolio.

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 portfolio 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 portfolio may underperform other portfolios that do not apply similar criteria. The portfolio may invest in companies that do not reflect the beliefs and values of any particular investor.

Important information

Marketing material for professional clients only.

Any reference to sectors/ countries/ stocks /securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy.

The funds in the strategy may or may not be managed in reference to a benchmark.

Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions.

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.

Schroders has expressed its own views and opinions in this document and these may change. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy.

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