Schroders

Global Credit Income Strategy

Strategy	Income/yield focus, while managing drawdown risk
Comparator benchmarks	– Bloomberg Multiverse ex Treasury A+ to B USD Hedged index – Bloomberg Global Aggregate Corporate USD index – Bloomberg Global High Yield USD index – JP Morgan EMBI Global Total Return index
Portfolio Managers	Julien Houdain, Martin Coucke
Inception	November 2016
Typical no. of holdings	500–700
Investment Universe	Investment grade and high yield, US, Pan-Euro, Asian and EM credit, EM sovereigns, ABS/MBS, municipals
Credit quality	Average investment grade
Base currency	USD
Duration	3–5 years
SFDR	Article 8

The opportunity in global credit

For income seekers, the opportunity across the global corporate bond universe is vast. For those concerned about rising interest rates and inflation, credit can provide a better cushion than some longer-duration asset classes like government bonds. But, in an environment of high market volatility, managing risk is crucial. This means managers need to focus as closely on managing downside risk as they do on generating steady income.

The unconstrained advantage

In our view, unconstrained strategies have more flexibility to take advantage of bottom-up market opportunities across regions and sectors, and they're better able to avoid behavioural biases and concentration risk. For example, many benchmarked strategies are relatively US-centric, whereas unconstrained strategies are freer to be more 'truly global'.

Staying nimble

Global credit markets are becoming increasingly efficient, but there are still enough information gaps and pricing anomalies to provide good hunting for active security selectors. We believe moderately-sized credit strategies are better able than 'mega-funds' to access bonds from smaller companies with alpha potential.

Our investment edge

Global Credit Income is Schroders' flagship unconstrained global credit strategy that aims to deliver attractive income, while also looking to mitigate drawdowns relative to the overall credit market. We use proprietary quantitative tools to integrate risk management through every step of the investment process.

Harnessing the "best of Schroders"

The lead portfolio managers set allocation among sectors, delegating management of sector sleeves to experts across our fixed income platform. The lead managers oversee the aggregate risk of the portfolio, ensuring their investment views are properly expressed in exposures at the overall portfolio level.

Themes-driven research

Our credit research identifies broad investment themes that we believe will shape returns (such as the end of diesel, income inequality, migration or the rise of e-commerce). Analysts across all sectors then seek to predict which companies in their coverage are potential winners and losers from these trends. This approach can uncover the less-obvious second- and third-order effects and highlight early-stage opportunities and risks.

Experience and scale

With a global platform of 40+ credit analysts and more than 50 years of experience running fixed income, Schroders has a strong track record of making its clients' money work harder–across all phases of the market cycle

Risk considerations

ABS and MBS risk: The strategy 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 strategy.

Contingent convertible bonds: The strategy may invest in contingent convertible bonds. If the financial strength of the issuer of a contingent convertible bond falls in a prescribed way, the value of the bond may fall significantly and, in the worst case, may result in losses to the strategy.

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

Currency risk: The strategy may lose value as a result of movements in foreign exchange rates.

Derivatives risk: Derivatives may be used to manage the strategy efficiently. The strategy may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the strategy.

Emerging markets, **(especially frontier markets):** In general, these markets 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.

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 strategy.

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

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

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 strategy 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 strategy 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.

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