Schroder High Yield Opportunities

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Daniel Pearson, an experienced credit manager. He benefits from the extensive fixed income team at Schroders and also works very closely with fellow fund manager, Peter Harvey, another very experienced practitioner.
- The manager is sensitive to the fine balance between credit quality and value opportunity offered by higher yielding bonds. He is alive to the illiquidity challenges of investing in lower-rated bonds.
- The process is marked out by the depth of credit research at Schroders, which helps to identify potential winners and losers within the framework of carefully considered investment themes.

Key characteristics and expected outcome

- The fund provides exposure to predominately pan-European high yield bonds and is managed without constraints versus the benchmark.
- The in-depth nature of the company-specific research, and desire to deliver an attractive level of income, mean that the team is willing to tolerate capital volatility when they have a high level of confidence in their forward-looking analysis.
- In seeking to mitigate the volatility associated with the asset class, the manager aims to construct a portfolio that is diversified by issuer, investment theme and maturity profile.
- With its flexible and dynamic approach, the fund is suitable for investors who are seeking a bottom-up driven high yield fund which can be held through a variety of market cycles.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 3. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 3 means the fund's historic volatility is between 2% and 5%.

SRRI scores of 3 and 4 are common in the sector. Although the portfolio is carefully constructed with a view to providing diversification, given the team's focus on issuers and stock-specifics, we would expect the fund to have periods of higher-than-average volatility. That said, the manager's emphasis on first lien senior secured bonds could help mitigate some of the volatility associated with the asset class. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	14 February 2000
Manager(s) Since:	Daniel Pearson
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	IA £ High Yield
IA Sector:	£ High Yield

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

The fund provides exposure to pan-European high yield bonds. The process is characterised by in-depth credit research, which is framed by investment themes. Within this, the manager invests with flexibility. Within its sector, the fund features in our 'Primarily Pan-European High Yield, Flexible' category.

Investment Team

Daniel Pearson has managed the fund since 2018. He joined Schroders as part of the acquisition of Cazenove Capital in 2013. He is a member of the firm's European Credit team, which comprises portfolio managers and analysts. The team shares proprietary research and views with the global fixed income team, which is located in various global locations.

Investment Philosophy

The manager believes that attractive total returns can be achieved through the process of diligent, in-depth credit research. While income generation is his priority, he is also mindful of capital volatility and overall portfolio risk. With this in mind, he aims to build a portfolio that generates alpha by combining a variety of investment themes, which are diversified by type and horizon.

Investment Process

The investment process is founded upon a fundamental credit research approach that emphasises an understanding of the business models of issuers and the challenges they face in the real world. Credit selection is expected to be the primary driver of returns and the process is less reliant upon other factors, such as sector and rating biases, duration exposures and the beta associated with macro positioning. In other words, the manager believes there is more than enough alpha potential in credit to deliver the fund's performance objectives in a well-diversified and risk-controlled manner.

The process also incorporates credit themes, which are used to create the top-down framework that helps to guide security selection. These themes not only help to identify potential value, but also serve to highlight disruptive influences on industries and issuers. Credit managers hold weekly meetings to identify these themes in the context of current market conditions. These are then communicated to the credit analysts, who incorporate them into their analysis, searching for names that either stand to benefit from the themes, or are at the risk of deterioration. The team also holds a monthly credit strategy meeting to identity cross-market relative value opportunities and highlight risks to the market over the short to medium term. These perspectives help the analysts to formulate forward-looking assessments of companies and also to recognise areas of the market that are under-researched by competitors. They work closely with the portfolio managers to identify the highest conviction ideas to feature in the final portfolio. In selecting ideas, they look for alpha sources that are lowly correlated with a view to mitigating volatility. Careful attention is paid to the whole debt capital structure of an issuer, with the manager placing emphasis on first lien senior secured bonds.

Portfolio Construction and Risk Controls

The fund pays little attention to the composition of any high yield bond benchmark. It invests predominately in pan-European sub-investment grade corporate bonds. The portfolio may invest in non-sterling denominated bonds, but these are hedged back to base currency. The strategy also uses a range of derivative instruments, to generate additional return and manage risk across different market conditions. Risk management is embedded throughout the process and supported by trade risk management tools.

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