Schroder Strategic Credit

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Peter Harvey, a manager with vast experience. His ability and the extensive resources at Schroders are major factors in the fund's appeal.
- The manager is a credit analyst at heart and understands the often fine balance between quality and yield opportunity. Critically, given his experience, he has a clear awareness of the risk of investing in lower rated and less liquid bonds.
- This is a unique mandate within the peer group that has benefited from Mr Harvey's careful stewardship since launch.

Key characteristics and expected outcome

- This is a flexible bond fund, with the manager seeking to generate income without putting the capital of the fund at undue risk over the long term. Derivatives are used to help control interest rate and credit risks and there is also a keen eye on liquidity and diversification.
- It seeks a more favourable drawdown experience than would otherwise be expected from a high yield-biased fund, although it is not entirely immune from the vagaries of market direction.
- The fund pays out its "natural" income on a semi-annual basis and therefore distributions may fluctuate. Investors can expect an attractive level of income relative to prevailing conditions, but it is important to note that the manager will sacrifice some income at times when he deems bond pricing to offer inadequate value.
- Given its unique mandate, performance should not be compared directly to other funds in the peer group or to bond indices.
- It is suitable for investors seeking a specialist credit fund which is managed in a risk-controlled fashion.

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 3means the fund's historic volatility is between 2% and 5%.

The fund's five-year standard deviation is slightly lower than some peers. This score is in keeping with its conservative credit mandate. Drawdowns tend to be shallower than would ordinarily be expected of a higher yielding fund. Absolute volatility is also relatively low. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	01 January 1970
Manager(s) Since:	Peter Harvey (Apr 06)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	ICE BofA GBP 3 month Government Bill Index
IA Sector:	£ Strategic Bond

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

A flexible bond fund whereby the manager seeks to generate income without putting capital at undue risk. The approach is bottom-up, built around a proprietary credit rating process. The manager seeks opportunities in lower-rated bonds, particularly those in the BB to B rated area. Within its sector, the fund features in our 'Total Return' category.

Investment Team

Peter Harvey has managed the fund since its launch in 2006 and joined Schroders as part of the acquisition of Cazenove Capital in 2013. He is a member of the firm's extensive European credit team, which comprises portfolio managers and analysts.

Investment Philosophy

The fund is managed with an absolute return mentality, whereby the manager seeks attractive total returns through successful credit selection. With this in mind, he believes that significant opportunities are created because of inefficiencies in the way that investors process company information. In particular, bonds whose ratings are close to the boundary between investment grade and high yield are rich with ideas. In practice, the manager expects his flexible approach to credit selection to produce a return of 2-3% in excess of 3-month LIBOR over the medium to long term.

Investment Process

This fund is run according to the manager's long-established, bottom-up approach, built around a proprietary credit rating process. The manager places particular emphasis on bonds whose ratings are close to the boundary between investment grade and high yield ("cross-over" credits), where he believes he can discern an information advantage. The process also incorporates credit themes, which are used to create the top-down framework that helps to guide security selection.

Credit portfolio managers hold weekly meetings to identify forward-looking themes in the context of current market conditions (for example, consumer trends, technology developments, environmental factors). 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 risk of deteriorating. The team also undertakes a monthly credit strategy meeting to identity cross-market relative value opportunities and highlight risks to the market over the short to medium term. At the issuer level, the manager works closely with the credit analysts to understand a company's business risk, financial metrics and management team, a process which usually involves meeting a company's senior management.

Portfolio Construction and Risk Controls

The fund is managed without reference to a benchmark. Gilt futures are used to hedge out much of the fund's duration risk; aggregate duration is typically 1-2 years and a maximum of 4. In order to facilitate the mandate's flexibility, derivatives are used for both investment purposes and efficient portfolio management, which means fund may use leverage and take short positions. Non-sterling exposure is largely hedged back to sterling. Risk management is embedded throughout the process, from diversification of themes, in-depth proprietary credit research and portfolio construction to pre- and post-trade portfolio risk monitoring systems.

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