Schroders

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# Schroder ISF* Strategic Credit

**Fund Manager: Peter Harvey | Fund update: November 2022**

## Performance overview

- November saw a robust recovery in bond markets in general. Treasury yields were broadly lower, and credit spreads tightened across global markets.
- US 10-year yields fell from 4.05% to 3.61%, with the two-year dropping from 4.49% to 4.34%. Germany's 10-year yield dropped from 2.14% to 1.93%. The UK 10-year yield decreased from 3.51% to 3.16% and 2-year fell very slightly from 3.27% to 3.26%.
- European high yield outperformed European IG over the month.
- All G-10 currencies showed gains against the greenback during November.

## Drivers of fund performance

- The fund produced a positive return for the month. Allocations to European healthcare and real estate were the main drivers of performance as credit continued to perform well.
- Exposure to services and European senior financial services detracted from returns.

## Portfolio activity

- Over the month we increased exposure to investment grade bonds funded through cash and a small reduction in high yield.
- The fund increased exposure to senior financial services as well as to tier-2 and senior banking. On the other hand, we reduced our exposure to leisure, energy and services.
- We added significantly to the banking sector over the month, notably through investment grade UK banks. We currently find the sector attractive in terms of valuations and fundamentals.
- Healthcare and telecoms remain our largest exposures. We added to our healthcare allocation over the month while slightly trimming our telecoms exposure.

## Outlook/Positioning

- November's recovery was driven largely by the bond market's confidence that inflation may be peaking in the US, and that the Federal Reserve (Fed) can afford to ease back on its tightening policy.
- Looking ahead, we are starting to see signs of inflation easing in the US, which is likely to be followed by Europe, albeit with a lag.
- Despite November's market rally, credit valuations are still attractive, providing a meaningful yield cushion against a slowdown in growth, although there remains scope for volatility as uncertainty persists. While the markets have been focused on the big macro story, notable dispersion has developed within the credit markets which will provide opportunity for stock selection.
- Market dispersion has increased as good quality companies have been impacted indiscriminately. Careful bond issuer selection will be important, particularly looking for issuers with cash flows rising with inflation, or whose business models are resilient to a slowdown.Calendar year performance (%)

| | C Acc | Target |
|---|---|---|
| 2021 | 3.7 | 0.0 |
| 2020 | 3.8 | 0.3 |
| 2019 | 8.8 | 0.8 |
| 2018 | -1.8 | 0.7 |
| 2017 | 4.3 | 0.4 |
| 2016 | 5.9 | 0.5 |
| 2015 | 3.4 | 0.6 |
| 2014 | 3.0 | 0.6 |
| 2013 | 4.7 | 0.5 |
| 2012 | 12.7 | 0.8 |

Source: Schroders, as at 31/01/2022. All performance net of fees (where applicable), NAV to NAV (bid to bid), GBP returns. Target : ICE BofA Sterling 3-Month Government Bill Index.

- Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and investors may not get back the amount originally invested.
- Some performance differences between the fund and the benchmark may arise because the fund performance is calculated at a different valuation point from the benchmark.

*Schroder International Selection Fund is referred to as Schroder ISF throughout

- Please see the respective fund factsheets for the performance of other share classes.

## Risk considerations

- **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.
- **Contingent convertible bonds**: The fund 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 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**: A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **Currency risk**: The fund may lose value as a result of movements in foreign exchange rates.
- **Derivatives risk – efficient portfolio management and investment purposes**: 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 fund. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset.
- **Event risk**: The fund will take significant positions on companies involved in mergers, acquisitions, reorganisations and other corporate events. These may not turn out as expected 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.
- **IBOR risk:** 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 fund.
- **Interest rate risk**: The fund may lose value as a direct result of interest rate changes.
- **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.
- **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 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.

## Important information