Schroders

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# Schroder ISF* Global High Yield

**Fund Manager: Martha Metcalf | Fund update: October 2021**

## Performance overview

– High yield bond total returns were negative in October amid significant yield curve flattening, as markets priced in an earlier start to global monetary tightening.

– Despite negative total returns, global high yield, excluding emerging market (EM) sovereigns, saw better excess returns relative to Treasuries than investment grade corporates and emerging markets debt (EMD).

– The fund posted negative returns and modestly underperformed the benchmark over the month.

## Drivers of fund performance / Portfolio activity

– Excess returns in October were negative, driven by security selection, while asset allocation was modestly positive.

– Security selection within consumer non-cyclicals detracted the most, followed by capital goods, insurance and consumer cyclicals.

– Asset allocation within corporate sectors was modestly additive, driven by an overweight to energy.

– The Treasury curve flattened which aided performance given our overweight to the long end.

– Regionally, an underweight to euro credit contributed to relative returns.

– Over the month, we took profits and reduced communications and energy.

– In October, we also sold off two UN Global Compact violators, a quasi-sovereign bond and one metals and mining issuer.

## Outlook

– Valuations are stretched and dispersion, although increasing, remains low in the high yield market.

– Fundamentals continue to be strong as the macro environment remains supportive and credit metrics have recovered, although growth is moderating.

– Despite growth recovery, policy support and improving fundamentals, valuations are tight and fully reflective of this improving macro backdrop.

– We believe there is limited compensation for volatility spikes. Bonds have been supported by the liquidity provided by central banks, but as this is withdrawn, the risk of market overreactions exist.

– Although high yield remains relatively attractive from a credit allocation perspective, tight valuations, a moderating growth and rising systemic risks warrant a cautious stance.

– As a result, we have positioned the portfolio more conservatively and have locked in some of the market recovery, creating capacity to add risk in the event of a volatility spike.

## Calendar year performance (%)

| Year | Fund | Target | Comparator |
|---|---|---|---|
| 2020 | 5.3 | 6.4 | 5.3 |
| 2019 | 15.3 | 14.4 | 12.4 |
| 2018 | -4.5 | -1.8 | -3.7 |
| 2017 | 7.3 | 7.8 | 8.1 |
| 2016 | 13.8 | 15.6 | 10.9 |

Source: Schroders, as at 31 December 2020. Fund performance is net of fees, NAV to NAV with net income reinvested, C Acc shares. Please see factsheet for other share classes. The target benchmark is Bloomberg Barclays Global high Yield ex-CMBS ex-EMG 2% Issuer Capped index and comparator is Morningstar Global High Yield.

– 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 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

– **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.

– **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.

– **Market Risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.

– **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.

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

– **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.

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

– **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.

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

– **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 – 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.

– **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.

– **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.

– **Emerging markets & frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.

## Important information