

Summary

Schroders' Global High Yield strategy seeks to generate total return by investing across the full maturity spectrum of below investment grade corporate bonds denominated in various currencies. The strategy may also invest up to 30% in investment grade corporate bonds and government securities. The strategy typically does not invest in equities, leveraged loans, or emerging market sovereigns.

In the Global High Yield strategy, we manage six key factors to when trying to generate return. Three factors: issue selection (including investment decisions on seniority/subordination, covenant protection, maturity, and bond versus CDS exposures), sector weighting, and quality tilt typically contribute the majority of any excess returns relative to the benchmark. Positions in three other areas are also actively managed: geographic exposure, duration and curve positioning, and liquidity. These factors together contribute the balance of any excess returns versus the benchmark.

Why Schroders for Global High Yield?

- Globally integrated platform of experienced regional teams with local market expertise
- Consistent and proven investment process that seeks to capitalize on differentiated sources of risk adjusted return
- Risk management mentality governs every step of the investment process
- Experienced team of over 40 career global credit analysts, including six dedicated high yield analysts, applying stringent credit standards that are supported by fundamental research
- Opportunistic style that seeks to capitalize on changing market environments

Firm highlights

- Founded in 1804, with a strong family presence to this day
- Asset management is our main business
- Over 700 investment professionals worldwide
- Truly global reach: based in London, with offices in 27 countries
- Expertise in Fixed Income, Equities, Multi-Asset, Solutions, and Alternatives

Team highlights

- Specialist regional portfolio managers led by Wes Sparks, Head of US Credit Strategies
- Strong team of career global credit analysts with geographical and industry expertise, covering over 1,300 issuers
- Approximately \$127 billion of fixed income assets under management globally
- Fixed income quantitative analytical team for proprietary analysis and modeling
- In-house economics team

Key features

- Research-driven, themes-based investment process
- Analysts utilize a rigorous issuer evaluation process that combines fundamental, relative value and volatility assessment
- Risk management is embedded in our culture
- Centralized global credit research platform for fixed income and equity teams
- Relative value approach to decision making with opportunistic management in changing markets

Investment objective

Schroders' Global High Yield strategy seeks to provide income and capital growth.

There can be no guarantee that any investor objective or outcome will be achieved.

Investment philosophy

- Fixed Income markets are global, interrelated and generally efficient but can overreact to events, creating investment opportunities
- We believe that a globally integrated team of research-driven bond investors is the ideal structure to take advantage of these opportunities
- Using a disciplined investment process and diversified strategies, we seek to generate consistent above benchmark returns with lower than average volatility

Credit research

Fundamental credit research is core to our investment philosophy and process and is a key driver of whether we are able to deliver superior risk-adjusted performance. Our global credit team of over 40 'career' analysts is one of the largest and most experienced in the industry, averaging 15 years of experience. Schroders credit analysts have close relationships with companies' senior management due to our strong franchise and close cooperation

with Schroders' network of 90 equity analysts. Research responsibilities are organized regionally and by sector with analysts based in London, New York, Philadelphia, Singapore, Hong Kong, Tokyo, Jakarta and Sydney. Our global team of credit analysts covers the full spectrum of investment grade and below investment grade issuers, and produces analysis and internal ratings of more than 1,300 issuers, or approximately 50-60 issuers per analyst.

Investment process — overview

Our fixed income process consists of four distinct steps:

- **Investment themes.** Conduct in-depth proprietary market research (fundamental, quantitative and technical) to develop investment themes that will dominate markets over the ensuing three to six month period
- **Portfolio strategy.** Based on investment themes, develop and prioritise investment strategies which will determine optimal portfolio positioning in three primary areas of the market: duration, yield curve exposure, and sector allocation
- **Portfolio construction.** Implement investment strategies within an actively managed portfolio, using relative value framework to prioritise investment ideas and execute security selection using the resources of our Global Credit, Securitized and Global Teams
- **Risk management.** Continually review portfolio within rigorous risk management framework

Investment process — overview (continued)

Schroders uses a themes-based investment strategy that combines top-down market drivers with bottom-up fundamental credit analysis to formulate investment strategies

and construct portfolios. This process is consistently applied, transparent and repeatable.

Investment Themes

- Quarterly Investment Forum (QIF)
- Multi-Sector macro meeting
- Fundamental credit analysis

Risk Management

- On-the-desk portfolio management tools
- Pre and post-trade compliance
- Independent oversight by risk team



Portfolio Strategy

- Relative sector allocations
- Set and prioritize investment strategies
- Technicals/sentiment

Portfolio Construction

- Industry allocation
- Issuer/security selection
- Yield curve positioning

Source: Schroders.

Risk management

Inherent within the fixed income investment process is a total risk management mentality. Our structured approach to risk management and monitoring utilizes a combination of formal and informal rules and guidelines, as well as proprietary quantitative models and externally supplied software tools, including Charles River Trading Systems and Barclays Capital POINT.

At a total portfolio level, the team seeks to reduce risk through diversification across investment areas and time horizons. For individual issues, position size is determined by an assessment of risk and reward across different strategies, and is rigorously controlled based on the issuer's risk profile. All positions are measured in both market value percentage and contribution-to-duration (CTD) terms.

The use of structured risk controls is critical in limiting the volatility of returns versus a benchmark while achieving the portfolio performance target. Our process tracks sector and individual exposures against their benchmarks, quantifying such exposures as: modified and effective duration, yield to maturity, option-adjusted spread, yield curve exposure, sector and industry allocation, and credit rating category.

All investments involve risks including the risk of possible loss of principal. Investments in non-investment-grade debt securities (high yield bonds) may be subject to greater market fluctuations and risk of default or loss of income and principal than securities in higher rating categories. Investing in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing overseas involves special risks including among others, risks related to political or economic

instability, foreign currency (such as exchange, valuation and fluctuation) risk, market entry or exit restrictions, illiquidity and taxation. These risks exist to a greater extent in emerging markets than in developed markets. The market value of the portfolio may decline as a result of a number of other factors, including interest rate risk, credit risk, inflation/deflation risk, government securities risk and liquidity risk. Frequent trading of the portfolio may result in relatively high transaction costs and may result in taxable capital gains.

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