

Schroder Strategic Credit Z Inc

November 2021
Investment Research



Overview

The fund generates an income through investment in corporate bonds across the quality spectrum. Historically the manager has managed to provide a relatively stable income stream, although it should be noted that the level of income is not guaranteed and may vary depending on prevailing interest rates and market conditions.

| Capital Accumulation | Capital Preservation | Income | Inflation Protection |
|----------------------|----------------------|--------|----------------------|
| | | ● | |

Square Mile Expected Outcome

We believe that the fund should be able to outperform cash, (as measured by 3 Month GBP LIBOR) by 3% per annum over three year rolling periods.

| | |
|-----------------------------------|--|
| Active/Passive: Active | Domicile: United Kingdom |
| Asset Class: Fixed Income | IA Sector: IA Sterling Strategic Bond |
| Launch Date: 04/04/2006 | Fund Size (as at 12 Nov 2021): £734.2m |
| Yield: 4.18% | Distribution Pay Date: Jan 01 (Final), Jul 01 |
| Fund Manager: Peter Harvey | Ongoing Charge Figure: 0.76% |
| | Transaction Cost ex Ante: 0.05% |



Fund Opinion

Essentially this is a flexible, short-dated corporate bond fund, with the manager focusing investment at the higher quality end of sub investment grade credit. This has, historically, resulted in an attractive income stream. The mindset is one of minimising drawdowns, which is reflected in the manager's "cash plus" performance target. To this end, the fund also has the flexibility to invest in bonds issued by governments or government agencies as well as investment grade bonds. Given the emphasis on lower-rated (sub-investment grade) bonds, the fund can suffer substantial volatility at times of credit stress.

That said, Peter Harvey, who has managed the fund since its launch in 2006, has proved himself adept at maintaining the fund's value over longer time periods and, in addition, has created an impressive dividend profile on the fund. Whilst the yield varies somewhat depending on market conditions, the absolute value of dividends on the fund has been remarkably consistent for most of the fund's life. This is an attractive feature and makes the fund, in our view, a compelling option for investors looking for a steady income stream from a corporate bond fund with limited interest rate risk. The fund tends to perform well in an environment of strong credit returns, but can underperform when corporate bond markets are falling due to the generally higher risk credit which is held for its income-generating properties.

Fund Description

The fund is managed by Peter Harvey, and has been since its launch in 2006, when the fund was part of the Cazenove range. Following Cazenove's takeover by Schroders in 2013, the fund became part of the Schroders range, however, neither the manager nor his process changed. Mr Harvey joined Cazenove in 2005, having previously spent 14 years in the industry, 11 of which as Head of UK Credit at F&C. Schroders is a large asset management firm, with offices worldwide and manages funds across all asset classes. Its fixed income function encompasses a well-resourced team of analysts specialising in European corporate bonds, as well as a team of portfolio managers covering UK, European and Global investment grade and sub-investment grade mandates. In addition, there are teams of corporate bond analysts focused on America and Asia on whom the manager can call if needed.

The manager aims to generate income without putting the capital of the fund at undue risk over the long term. There are three stages in the investment process: sector allocation, stock selection and risk control. The process begins with sector allocation. The team assesses macroeconomic factors, credit fundamentals, relative value between sectors and technical factors. These topics are discussed by the team, and a view formulated as to which sectors should be overweight and which underweight. Mr Harvey uses this output, as well as the discussions which lead to it, to determine the sector positioning for the portfolio.

The second step in the process is stock selection. This is the heart of the investment process, where the manager works closely with the team of corporate bond analysts to form views on individual bonds and determine whether or not these would be appropriate for inclusion in the portfolio. The team looks to assess a company's business risk, financial metrics and management team, a process which usually involves meeting a company's senior management. The result of this analysis is an internal rating for each bond, which is then used to guide, but not dictate, decisions. The final choice on whether or not to buy a bond will always hinge on the question: will it make a positive return over a 6-12 month time horizon?

The third step in the process revolves around risk control. Risks are monitored using a combination of internal and external systems, which allow the manager to see where risk is coming from. The limits on the portfolio are wide, with the only real limitation being on the interest rate risk which the manager can assume. The fund can use derivatives to both gain and hedge exposure, and thus the total exposure of the fund to credit risk may be above 100%. Investments in bonds issued in a foreign currency will be hedged back to sterling to reduce the effects of exchange rate fluctuations.

The manager will tend to focus on shorter-dated securities as he believes that these are more in line with the fund's objective of providing income without undue risk to capital. Interest rate risk on the fund as a whole is limited in an attempt to limit volatility and capital losses, although there is no limit at the individual security level.

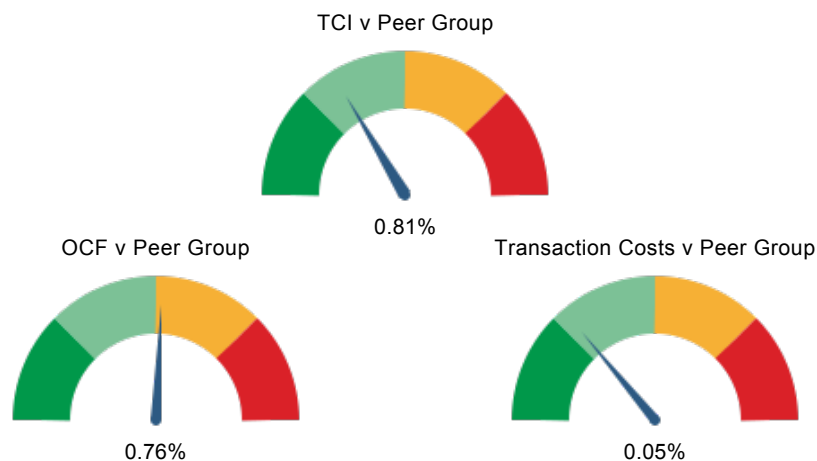
Risk Summary

This fund's manager invests in fixed income instruments, including those with ratings below investment grade. Whilst the main risk in the fund is likely to be credit risk, the manager looks to mitigate this risk through careful security selection and rigorous analysis of the underlying companies in which the fund invests. Investors should however be aware that, over time, credit risk is likely to be significant. If default rates increase it is likely to have an adverse impact on the fund and, despite the team's careful credit analysis, there is always a possibility that a bond in the fund could default on its obligations. Though, as the fund is well diversified, the impact of any individual bond defaulting should be small. The manager invests largely in short to medium-dated corporate bonds. Any impact on the prices of the bonds in the fund from rising interest rates is therefore likely to be limited, but there may be a degree of interest rate risk present in the fund at times. The magnitude of this risk will vary, but it is unlikely to be large.

Value for Money

The total cost of investment (TCI) for this fund is below the median for the peer group. We believe that the fund represents good value for money, given the strong track record of the manager, who has achieved excellent results overseeing this mandate through time, and the extensive fixed income resources at Schroders.

In line with the MiFID II regulations, asset management firms are required to disclose all of the costs and charges related to the running and administration of funds, which can include items outside of the OCF, such as research costs. As a result, Schroders absorbs all of the costs associated with its research, which slightly reduces the overall fee paid by investors.



ESG Integration

| | | | | |
|---|----|---|----|---|
| Company Assessment | 0 | 1 | 2+ | 3 |
| Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes. | | | | |
| UN PRI Strategy & Governance Rating | A+ | | | |
| Fund Assessment | 0 | 1 | 2 | 3 |
| ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision. | | | | |

Responsible Investing Approach

| Exclusion | Responsible Practices | Sustainability | Impact |
|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Additional Information

| | |
|------------------------------|---------|
| Annualised Return | 4.61% |
| Annualised Volatility | 6.48% |
| Max Drawdown | -13.93% |
| Max Gain | 5.17% |
| Max Loss | -13.93% |
| Sharpe Ratio | 0.63 |
| Sortino Ratio | 0.41 |

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

48.0 pence

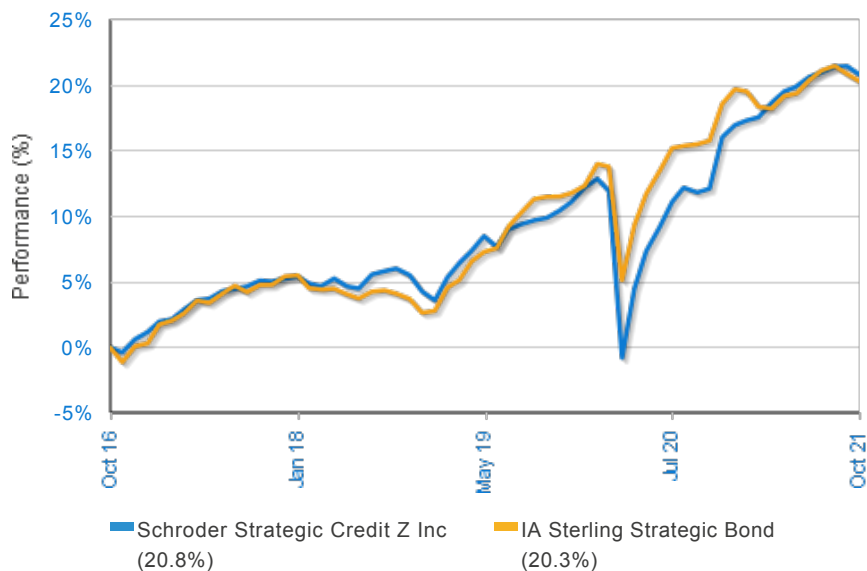
Benchmark

3 month UK Treasury bills

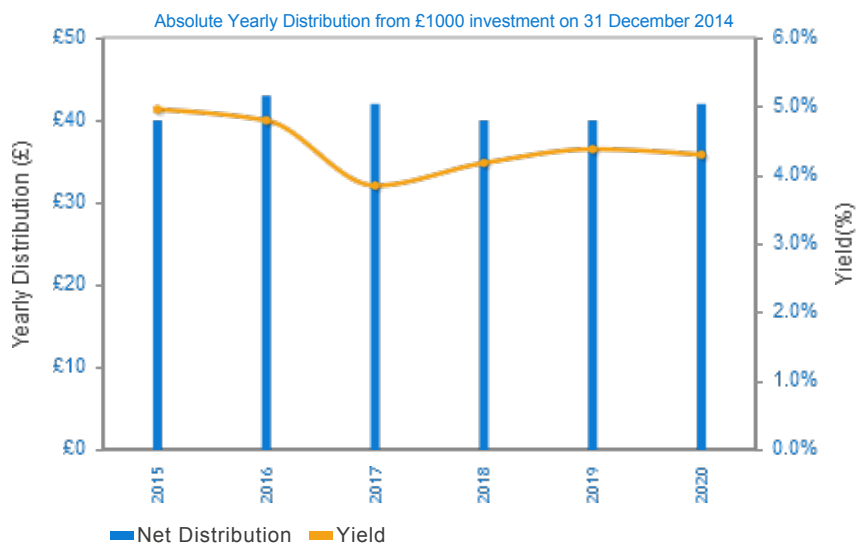
Discrete Annual Performance to Last Quarter End

| Period | Fund (%) | Sector (%) | Quartile Ranking |
|--------|----------|------------|------------------|
| 0-12m | 8.6 | 4.6 | 1 |
| 12-24m | 1.8 | 3.6 | 4 |
| 24-36m | 3.6 | 7.1 | 4 |
| 36-48m | 1.3 | -0.1 | 1 |
| 48-60m | 5.0 | 3.3 | 1 |

Capital Growth



Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

Credit Rating (Data as at 30 Sep 2021)

| Name | % |
|--------------------|------|
| AA | -2.1 |
| A | 0.2 |
| BBB | 19.8 |
| BB | 41.9 |
| B | 32.2 |
| Non-Rated / Others | 6.3 |

Bond Maturity

(Data as at 30 Nov 2020)

| Name | % |
|----------------------------|------|
| Cash & Floating Rate Notes | 0.1 |
| 1-3 Years | - |
| 3-5 Years | 55.1 |
| 5-15 Years | 25.2 |
| 15+ Years | 18.6 |

Asset Allocation Positioning

| Name | % |
|---------------------------|------|
| UK Fixed Interest | 41.5 |
| German Fixed Interest | 12.1 |
| French Fixed Interest | 9.8 |
| US Fixed Interest | 6.7 |
| Luxembourg Fixed Interest | 5.0 |
| Dutch Fixed Interest | 4.4 |
| Italian Fixed Interest | 4.0 |
| Others | 16.6 |

(Data as at 30 Sep 2021)

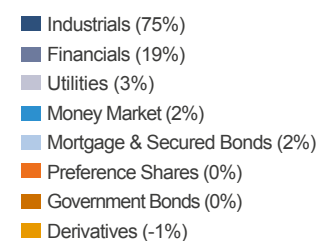
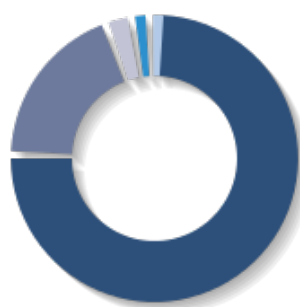
Top Ten Holdings

(Data as at 30 Sep 2021)

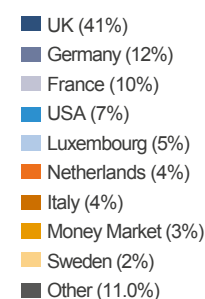
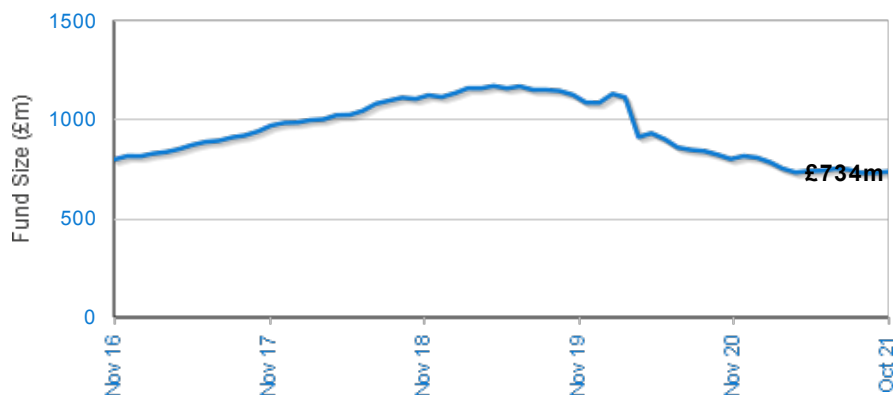
| Company Name | % |
|--|-----|
| PINEWOOD FINANCE LTD 3.25% BDS 30/09/25 GBP100000 | 1.8 |
| QUILTER PLC 4.478% NTS 28/02/28 GBP200000 | 1.7 |
| KONINKLIJKE KPN NV 7% BDS 28/03/73 USD1000144A | 1.6 |
| NIDDA HEALTHCARE HLDGS 3.5% BDS 30/09/24 EUR1000 | 1.5 |
| TALK TALK TELECOM GROUP PLC 3.875% BDS 20/02/25 GBP100000 | 1.4 |
| MERLIN ENTERTAINMENTS PLC 5.75% BDS 15/06/26 USD200000 | 1.4 |
| RL FINANCE BONDS 6.1250 30/11/2043 REGS | 1.3 |
| ARQIVA BROADCAST FINANCE PL 6.75% BDS 30/09/23 GBP1000 | 1.3 |
| GRUENENTHAL GMBH 4.125% BDS 15/05/28 EUR100000 | 1.2 |
| VIRGIN MEDIA VENDOR FINANCING NOTES III DAC 4.875% BDS 15/07/28 GBP100000REG S | 1.1 |

Sector Breakdown

(Data as at 30 Sep 2021)

**Geographic Breakdown**

(Data as at 30 Sep 2021)

**Assets Under Management**

Qualitative Risk Assessment

| | Significant | Potentially Significant | Not Significant |
|-----------------------|-------------|-------------------------|-----------------|
| Equity Risk | | | ● |
| Interest Rate Risk | | | ● |
| Credit Risk | ● | | |
| Exchange Rate Risk | | | ● |
| Liquidity Risk | | ● | |
| Emerging Markets Risk | | | ● |
| Derivative Risk | | ● | |
| Manager Risk | ● | | |

Equity Risk

The fund has no material direct exposure to shares.

Interest Rate Risk

The fund is predominately invested in shorter-dated, lower quality fixed interest markets. Rising interest rates may pose a risk, though any impact is likely to be limited.

Credit Risk

The fund has significant exposure to debt rated below investment grade. Credit defaults and downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

Exchange Rate Risk

The fund has exposure to assets denominated in foreign currencies but the manager intends to largely hedge the foreign exchange risks away.

Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

Emerging Markets Risk

The fund predominantly invests in securities issued by governments or companies in developed markets.

Derivative Risk

The fund employs derivative strategies to mitigate and more efficiently manage the risks within the fund. These are complex instruments and investors should be aware that there is a chance that they may not behave in a manner that the manager intends.

Manager Risk

The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile would carefully consider the fund's rating if the manager were to leave.

FE Risk Rating: 30.00

SRRI: 4

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