



Fund Bites

Schroder Strategic Bond Fund

The Schroder Strategic Bond is not part of our portfolios but is part of our review of our fixed interest holdings. This “fund bites” is a summary of the recent telephone update we had with the co-fund manager, Gareth Issac.

Introduction

The M&G Optimal Income Fund has been part of our portfolios since they were launched in 2009. In the recent review we indicated that we were concerned about the size of the fund and future direction.

Unlike some of the other funds offered by M&G we haven't yet seen a decline in performance but we are monitoring this closely.

There are two options we are considering should we decide to replace the fund. The first option is to replace the fund with a smaller strategic bond fund like for example the Schroder Strategic Bond fund or look to replace it with another multi asset fund which can act as a balance to the Standard Life GARS Fund.

We will of course monitor and test the different scenarios before any decisions are made in the next review.

In this review we will be looking at the Schroder Strategic Bond Fund.

The Fund



The fund is co-managed by Gareth Issac who has a wealth of experience having joined Schrodgers in 2011 from GLG (previously SocGen).

Why this fund appeals to us as an alternative to M&G is that the fund manager has the experience and credentials but the fund is in the same position that the M&G Fund was in in 2006. It is a small fund of around £100 million and therefore is much more nimble in terms of how it can invest.

So where M&G may now struggle this fund has the potential to thrive in this environment. The risk with this fund is that it is a new fund having started in March 2012

and therefore if we did opt for this fund we would be investing on the past experience of the manager and the support behind Schrodgers both of which appear on paper to be very strong.

This telephone conference call was more about getting a feeling for the manager and his style of management. If we decide to add the fund we will do a lot more research around the process behind the fund.

The fund takes a global approach to investing and its size means it can take advantage of opportunities that arise. Towards the end of 2012 the fund was focused on government bonds particularly in areas like Portugal where the fund manager saw opportunities, going into this year the focus has been more on corporate bonds.

It does have exposure to the high yield market but the manager believes that you have to be selective in this area. For example, some of the opportunities that he sees are in the likes of Lloyds and Quicksilver. Recently he has invested in Thomas Cook but has sold out to take profits.

The fund does invest in emerging markets where there are opportunities. As we have indicated before some economies struggle more especially with tapering. The markets reacted positively that this may not start until the end of this year or beginning of 2014 and this did provide a rebound to some emerging markets which have been hit hardest by this, so the likes of India, South Africa, Turkey and Brazil.

However, there is still risk with these economies whereas the likes of Mexico are in a different place and the sell-off impacted on them. For Gareth this provided an opportunity which he was able to capitalise on and then sell out of recently.

Other areas of opportunities are around interest rate raises. The markets seem to be pricing in a rate increase as early as 2015 for the UK however he feels that there is unlikely

to be any increase for some time which then provides opportunities to trade in this and deliver the potential to provide good returns to the fund. Other areas are around UK bonds where these have significantly underperformed European bonds and therefore going into 2014 there is the potential for a rebalance and the fund should benefit from this.

In summary as we said with the M&G Optimal Income review this is not an exciting area to invest in but what you do want is a fund which can exploit opportunities. The US is in a strong position and the UK is showing good signs of recovery. China is picking up and the news from Europe is good (the data from the likes of Portugal, Spain, Italy, Ireland and France is really positive). There are also good opportunities in the emerging markets. For a strategic bond fund to succeed it needs to be nimble and certainly in the early stages of the funds life it seems to have been able to do this.

Conclusion

We are at the early stage of reviewing the direction of the portfolios and no decisions have been made. Although we feel a smaller fund may offer opportunities, if the M&G Optimal Fund continues to deliver then we may feel that it is better to remain with this. Equally we may feel that a multi asset fund provides a broader spread of risk in what is clearly a difficult market for bonds.

The source of information in this note has been provided by Schroders and is correct as at 23 September 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.