AXA Sterling Credit Short Duration Bond

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Nicolas Trindade, who is experienced in managing short-dated credit mandates. He is passionate about the opportunity to generate attractive risk-adjusted returns from within this segment of the sterling credit market.
- The fund's mandate is well defined, and the portfolio has a clearly stated role for investors. The manager is skilled in the construction and re-investment demands of the mandate.
- The manager's comprehensive and considered approach is supported by the rigour of the team's macro-economic analysis and the assistance of a well-resourced team of credit analysts.

Key characteristics and expected outcome

- The fund invests in short-dated bonds which produce an income, but which tend to have lower volatility than the broader credit market.
- Equally, the income of the fund is likely to be lower than the aggregate corporate bond market due to the shorter maturities of the bonds in the fund and thus the lack of term premium (in other words, the extra yield demanded for lending for longer time periods).
- The manager aims to deliver a more favourable drawdown experience than would otherwise be expected from mainstream sterling investment grade bond indices, although it is not entirely immune from the vagaries of market direction.
- The fund has a balanced maturity profile to ensure a high degree of natural liquidity. With an average of around 20% of the fund maturing each year, there is some protection against any future rises in interest rates, as the manager would be able to reinvest maturing bonds at higher yields.
- Given its specific mandate, performance should not be compared directly to mainstream corporate bond funds in the peer group, or to bond indices.
- The fund is suitable for investors seeking a more defensive way in which to invest in bonds, whilst understanding that over time, it is also likely to have a lower total return outcome than more broadly exposed corporate bond funds.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 3. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 3 means the fund's historic volatility is between 2% and 5%.

The fund resides in the IA Sterling Corporate Bond sector but invests in short-dated corporate bonds that have a final maturity date (call date) of less than five years. As such, the fund will be typically less volatile than the sector in which it resides, as well as mainstream investment grade bond indices. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	12 November 2010
Manager(s) Since:	Nicolas Trindade (Nov 10) Phil Roantree (Jul 14)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	SONIA Compounded Index
IA Sector:	£ Corporate Bond

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A conservatively managed investment grade bond fund that focuses on the short-dated, final maturity date (or call date) of less than five years segment of the market. Within its sector, the fund features in our 'Investment Grade Credit, Short Duration' category.

Investment Team

Lead manager, Nicolas Trindade, joined AXA Investment Managers (AXA IM) in 2006 and is a senior portfolio manager at the firm. He has managed the fund since 2010 and is also the lead manager on the Global Short Duration Bond fund and its offshore equivalent. Mr Trindade and the fund's deputy manager, Phil Roantree, are members of the firm's London-based Active Sterling Fixed Income team. They are also supported by AXA IM's extensive global fixed income team, which includes significant quantitative and credit analyst resources.

Investment Philosophy

The manager seeks to provide consistent, incremental returns in excess of cash, while at the same time minimising interest rate risk and limiting overall volatility. He aims to strike a balance between limiting duration risk while still capturing credit spread opportunities. He is also mindful of trading costs and seeks to minimise turnover while still being active. To achieve this, the fund is invested predominately in sterling-denominated corporate bonds with a final maturity date (or call date) of less than five years.

Investment Process

AXA IM has a global fixed interest process which starts with defining the macro environment through top-down inputs. This takes in the views of the in-house strategy team and fund managers, together with external inputs from investment banks and rating agencies. These views are consolidated into a macro framework, which is used by the specialised Alpha groups (small sub-teams of individuals split by expertise) as a foundation from which to build their views. The Alpha groups define overall market expectations and active strategies using their proprietary "MVST" (macro, valuation, sentiment and technicals) analysis. The amalgamation of their views forms the top-down strategy that will determine the direction and shape of the funds for the next three months. These top-down views are then continuously monitored and refined as necessary.

A global team of credit analysts provides fundamental, bottom-up opinions on the full credit universe, identifying issuers with solid fundamentals and financial stability. In addition to name-by-name credit analysis, the credit analysts publish 3- to 12-month sector outlooks which includes a fundamental ranking (from strongest to weakest) of all issuers covered within each sector.

Portfolio Construction and Risk Controls

The manager invests in genuine short-dated corporate bonds, rather than taking the alternative approach of holding all maturities and hedging the duration exposure using gilt futures. The investible universe is the ICE BofAML 1–5-year Sterling Corporate & Collateralised index. However, certain riskier parts of this universe are excluded, such as equity-like hybrid bonds. Also, the aggregate maturity profile of the fund differs from that of the index; the manager prefers the fund to have an even spread of maturities across the portfolio. Typically, around 20% of the fund matures each year, providing both liquidity and a hedge against rising bond yields. Up to 20% of the fund can be invested in euro or US dollar issues, with the currency and interest rate risk hedged back to sterling. The manager can hold up to 5% in high yield bonds to allow for rating migration, or to capture relative value opportunities in the cross-over space.

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