Goldman Sachs Global High Yield Portfolio

Fund Research Centre
Recommended

Why we recommend the fund

- The managers of this Recommended fund are the Co-Heads of High Yield and Leveraged Loan Corporate Credit at Goldman Sachs Asset Management (GSAM).
- The team is part of GSAM's Global Fixed Income and Liquidity Solutions division, which is large and extremely well resourced. There is a strong emphasis upon collaboration between teams, with lead portfolio managers responsible for ensuring that GSAM's resources are being utilised effectively.
- The approach is driven by bottom-up analysis and, in support of this, fundamental research is conducted on a vast array of high yield issuers in all major currencies and regions.
- Acknowledging the asymmetry of the asset class and the risk of large negative outcomes from credit-stressed situations, they focus on minimising default losses in the interests of maximising risk-adjusted portfolio returns.

Key characteristics and expected outcome

- This is a global high yield bond fund, but, in practice, it has a large skew to the US market. This is due to the size of the US high yield market compared to other regions of the world. In addition, given the scale of GSAM's high yield product suite, liquidity is also an important consideration.
- The managers are pro-active, operating with a strong sell discipline and ready to step into weaker markets as valuations become attractive, with the support of their fundamental bottom-up work.
- Given the diversification of the portfolio and the team's focus upon risk-adjusted returns, the fund's risk/return characteristics are expected to remain broadly in keeping with the high yield benchmarks.
- The fund is suited to investors seeking broad exposure to the global high yield asset class through an approach that seeks to minimise default losses.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 4. 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 4 means the fund's historic volatility is between 5% and 10%.

The fund's risk score is in keeping with the sector. We expect the fund's future standard deviation to be approximately in keeping with that of global high yield bond indices. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	27 January 1998
Manager(s) Since:	High Yield and Leveraged Loan Team (Jan 98)
Fund Domicile:	Luxembourg
Base Currency:	US Dollar
Fund Benchmark:	Bloomberg US High Yield 2% Issuer Cap
IA Sector:	Global High Yield 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 global high yield bond fund, with a bias to the US market. Bottom-up credit research, with a clear focus upon minimising credit stress-related losses, drives the process. Within its sector, it features in our 'Global High Yield (US Biased), Total Return Focus' category.

Investment Team

The fund is managed by Aakash Thombre and John McClain, Global Co-Heads of High Yield and Leveraged Loan Corporate Credit. The team is well-resourced and incorporates expertise in research, trading and portfolio construction. The managers work collaboratively with their colleagues, drawing ideas from the leveraged credit specialists, as well as taking input more broadly from the investment grade, emerging market debt, securitised credit and equity teams. The Fixed Income Strategy Group, which comprises the most senior members of the Global Fixed Income and Liquidity Solutions team, also provides them with direction, context and oversight.

Investment Philosophy

The primary goal of the approach is to maximise risk-adjusted returns and minimise credit stress-related losses. The team believes that fundamental or technically driven market inefficiencies can be identified through their process of intensive credit analysis. With a deep understanding of sectors and companies, they believe they are well positioned to capitalise upon mispriced situations and avoid damaging defaults.

Investment Process

The approach is based upon detailed bottom-up security analysis, combined with a broader assessment of macroeconomic conditions that helps inform company analysis and the geographical, sectoral and rating exposures in the fund. Top-down analysis is provided by the worldwide macroeconomic and strategy resources available to the team inside and outside the firm, and this helps them to formulate the medium and long-term outlook for the sub-investment grade bond markets. Team discussions also incorporate considerations of investor sentiment, technical factors, valuation and liquidity factors influencing the market.

The team undertakes rigorous fundamental analysis, focusing on company specific idiosyncratic factors, as well as trends in supply, demand, national and regional economic data, which helps them frame their outlook for a given company or sector. The internal research process, of which company meetings are an important part, incorporates industry research, an assessment of the business and financial factors affecting a company, and stress-testing. Valuation analysis is informed by cash flow metrics, asset values and market comparables, both public and private.

This framework helps organise investment opportunities into four buckets. 'Core' investment opportunities are comprised of companies with solid credit profiles and earnings/operating momentum. 'Compression' opportunities represent situations where the operating momentum of the issuer may be temporarily diminished in the context of an overall solid credit profile. 'Opportunistic' investments are issuers that have historically carried a below average quality profile but where positive operating and earnings momentum offer the potential for enduring credit profile improvement. Lastly, they identify companies with a below average credit profile and a weak outlook, which are generally 'Non-investable', regardless of valuation. Roughly 50-70% of the portfolio is typically made up of Core investments, around 20% in Compression trades, and the balance is in Opportunistic situations.

Portfolio Construction and Risk Controls

The fund is invested globally, although the dominant exposure is to North American high yield bond markets. It aims to feature around 250-300 issuers, diversified across sectors. For holders of the sterling share class, all non-sterling currency is hedged back to sterling, with the team typically using derivatives such as foreign exchange forward contracts.

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