Invesco Corporate Bond

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from the expertise of a well-established team (based in Henley) and follows a long-standing and thorough credit process.
- The fund has persisted through many different market cycles and positioning has always been driven by the team's assiduous assessments of the medium-term value in bond markets.
- When they have conviction, they are not afraid to counter prevailing market sentiment.
- Invesco's extensive risk teams and portfolio systems help the team to pinpoint risks in the fund and monitor liquidity.

Key characteristics and expected outcome

- In constructing the fund, the managers do not track an index but assess the opportunity set after taking account of market conditions and the balance of risk and reward on offer. They are prepared to vary the type and quantity of risk they take according to these judgements.
- They often hold strong views on areas of value within fixed income, and, at times, the fund will be positioned very differently from corporate bond benchmarks and peers.
- Given this value-driven, high conviction approach, the fund's risk/return outcome can differ meaningfully from indices and peers, sometimes for lengthy periods. Investors who are concerned about relative positioning should therefore consider blending the fund with more index-aware offerings.

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 managers' approach can result in variable relative risk and return outcomes over time, as they flex the portfolio according to their perspectives on market value. Investors should therefore be prepared for outcomes that can differ from mainstream corporate bond indices and peer group funds. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	24 July 1995
Manager(s) Since:	Tom Hemmant (Sep 20) Michael Matthews (Mar 13)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	N/A
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 flexibly managed investment grade bond fund. The approach is value-driven, with the managers prepared to express their high conviction views on the value available in different parts of the corporate bond market. Within its sector, the fund features in our 'High Conviction' category.

Investment Team

The fund is co-managed by Michael Matthews and Tom Hemmant, who are based in Henley-on-Thames. Mr Matthews is a long-standing team member and is Co-Head of Global Core within the Invesco Fixed Income Europe division, with responsibility for overseeing the European-domiciled government and investment grade portfolios. Mr Hemmant joined the Henley-based fixed interest team in 2011. He is a fund manager and began co-managing this fund in September 2020.

Investment Philosophy

The managers believe that a flexible mandate is important in delivering outperformance as it enables them to change positioning according to their assessment of market conditions and to benefit from other investors' constraints. Nevertheless, their investments are always underpinned by their medium-term assessment of value.

Investment Process

The structure of the portfolio is driven by the managers' macro-economic views and their consequent identification of value across the broad bond sectors, including government bonds, investment grade bonds and high yield credit. Their analysis of the economic cycle is designed to predict monetary policy developments and the trend in the pricing of credit risk. These factors inform the general strategy for the portfolio in terms of duration, credit risk and the areas of preference on the yield curve. They can often lead to high-conviction preferences for particular industries and/or segments of the corporate bond universe.

This research is complemented by bottom-up company research undertaken by the team of credit analysts. Analysts review the fundamental credit quality alongside the environmental, social and governance (ESG) quality of an issuer. They then assign an issuer fundamental rating (AAA, AA, A, BBB, BB, CCC, D) and an assessment of the credit trend (improving, stable, deteriorating over the next 12-18 months) for what is typically a senior unsecured security of that issuer. In addition, each issuer receives a proprietary overall ESG grade. The issuer fundamental rating encapsulates the creditworthiness of a particular issuer using financial metrics. For example, for high yield issuers, assessments of asset coverage and debt serviceability are integral to the analysis. For the investment grade, high yield, and emerging market sectors, analysts provide additional ratings incorporating views on the market opportunity for particular securities. The allocation rating (A-E scale, with A most attractive and E least attractive) identifies whether the analyst rates the security a buy, hold, or sell. Such research supports relative value analysis between issuers and between different bonds issued by the same company.

Portfolio Construction and Risk Controls

The managers implement their research with conviction when they hold strong views. As a result, there are few rules governing portfolio construction other than those applicable to the IA £ Corporate Bond sector, which requires a minimum of 80% to be invested in investment grade corporate bonds and a minimum of 80% exposure to sterling. Sectors will only be included if the managers believe they offer value and the cash weighting may be increased according to the managers' outlook for bond markets. The maximum permitted allocation to cash is 20%. The managers may use derivatives to enhance the performance of the fund as well as for efficient portfolio management purposes.

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