Invesco High Yield

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by passionate and experienced high yield bond managers. They are supported by the well-established Fixed Income team based in Henley-on-Thames.
- The managers are credit analysts at heart and look for the best balance of risk and reward from across the high yield universe. Given their experience, they have a clear awareness of the risks of investing in lower rated and less liquid bonds.
- The team is methodical and diligent in its credit research. The managers are prepared to take larger position sizes where their confidence is high. Equally, they are prepared to withstand the additional volatility that may result from this selective approach.

Key characteristics and expected outcome

- In constructing the fund, the managers do not track an index but rather assess the opportunity set after taking account of market conditions and the balance of risk and reward on offer.
- The diligence of the company-specific approach means they are willing to tolerate price volatility when they believe their long-term analysis to be accurate. They are prepared to invest selectively in stressed and distressed names, according to their value perspectives and their assessment of a company's response to secular trends.
- That said, whilst being willing to take on risk when they believe they are rewarded for doing so, they will moderate overall portfolio risk when they believe aggregate valuations to be elevated. They do not lose sight of their stated aim to deliver competitive risk-adjusted returns over different market conditions.
- The fund is suitable for investors seeking a pan-European high yield bond where the managers, supported by the diligent research process, invest across the high yield spectrum, from "cross-over" names, to core high yield names, to more speculative situations.

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%.

SRRI scores of 3 and 4 are common in the sector. The fund's five-year standard deviation is similar to mainstream high yield bond benchmarks. There is the scope for higher volatility from this fund, as the value-driven approach means the managers are comfortable taking decisive issuer and sector specific views when they believe they are suitably compensated for the investment risk. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	14 May 1999
Manager(s) Since:	Thomas Moore (Dec 16) Tom Hemmant (Aug 20)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	IA £ High Yield Bond
IA Sector:	£ 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

The fund provides exposure to pan-European high yield bonds. The approach is value-driven, with the managers prepared to express high conviction views where they see the greatest opportunities. Within its sector, the fund features in our 'Primarily Pan-European High Yield, Flexible' category.

Investment Team

The fund is co-managed by Thomas Moore and Tom Hemmant, who are based in Henley-on-Thames. Mr Moore is Global Head of High Yield and has direct oversight of portfolio management teams in North America and Europe. He started his career in 1999 and joined the Invesco Fixed Income Europe team in 2016. Mr Hemmant joined the Henley-based team in 2011 as a credit analyst and became a fund manager in 2020.

Investment Philosophy

The team believes that fixed income markets continually present opportunities for active managers to outperform indices. They highlight that markets can be distorted by a number of factors, including, yields and spreads being too high or low, different investor objectives and rigid investment constraints. By taking advantage of these opportunities through fundamental analysis and a strong emphasis on valuation, they believe they can deliver competitive risk-adjusted returns under most market conditions.

Investment Process

The structure of the portfolio is driven by the team's macro-economic views and their consequent identification of value across the broad bond sectors. Their analysis of the economic cycle is focused on 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 fixed income 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. Such research supports relative value analysis between issuers and between different bonds issued by the same company.

Portfolio Construction and Risk Controls

At least 80% of the fund is invested in high yield bonds, primarily those issued on UK and European markets. Overseas currency exposure is hedged to sterling. The managers pay little attention to the composition of any high yield bond benchmark. The bulk of the fund is invested in core high yield bonds (typically single B-rated quality names) and "cross-over" names (those bonds whose ratings are close to the boundary between investment grade and high yield). A smaller component of the fund, typically less than 10 names, may be invested in highly leveraged companies, sometimes requiring restructuring. Bonds are selected based on their individual merits, with position sizes decided on a case-by-case basis using qualitative judgement and analysis. 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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