Legal & General Active Global High Yield Bond

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from the expertise of dedicated professionals covering European, US and emerging high yield markets, backed by LGIM's comprehensive and well-resourced Active Fixed Income division.
- There is a clear and disciplined investment approach that harnesses the firm's macro views and the team's in-depth credit analysis.
- The team is adept at leaning into different aspects of the process - macro, thematic, regional, industry or credit specific - as befits the market backdrop.

Key characteristics and expected outcome

- The fund can be used to gain broad exposure to the asset class, excluding financials. The inclusion of emerging market credits differentiates it from many peers.
- There is a quality bias, with a focus upon BB/B credits. An allocation to the L&G Global Opportunistic Credit fund serves to diversify the portfolio further and provides idiosyncratic credit exposure.
- While being aware of the benchmark, there is plenty of flexibility, with portfolio positioning guided by the team's macro-economic preferences and overall risk preferences. They are willing to avoid large index constituents when they have good reason.
- The valuation framework should help the fund exhibit resilience during market crises, whilst allowing the team to look through short-term periods of volatility when they believe they are being suitably compensated for the investment risk.
- Of note is that the IA sector incorporates a variety of mandate types that can deliver different risk/return outcomes. This fund is marked out by its geographical diversification and is less exposed to the US market when compared to global indices.

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 manager took over responsibility for the fund in November 2024. Over the longer term, we expect the reasonably diversified nature of the portfolio, combined with the manager's focus on risk, to produce a volatility outcome that is in keeping with the asset class. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	01 November 2000
Manager(s) Since:	John Ryan (Nov 24)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	ICE BofA BB-B Global High Yield Non-Financial 2% Constrained Total Return Index (Hedged to GBP)
IA Sector:	£ High Yield

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, global high yield bond fund that can include emerging market high yield bonds. The team's view of the macro backdrop sets the framework for the fund's aggregate credit risk profile and guides bottom-up credit selection. Within its sector, the fund features in our 'Global High Yield, Flexible' category.

Investment Team

John Ryan is Head of Global High Yield at Legal & General Investment Management (LGIM). He works closely with the regional high yield portfolio managers, Brent Finck (US), Peter Duff (emerging markets) and Adil Mirza (opportunistic credit). They benefit from LGIM's comprehensive and well-resourced Active Fixed Income team, which includes top-down investment strategists, an extensive global network of credit analysts and government bond specialists.

Investment Philosophy

The team seeks to generate attractive risk-adjusted returns through a diversified portfolio of global high yield bonds. In pursuing this objective, the team has a flexible approach, but they are guided by a strong macro structure and a robust valuation framework. They look to generate a level of income that is aligned to their assessment of prevailing market risk.

Investment Process

The investment process incorporates a combination of macro-economic analysis, credit analysis and valuation assessment. The Strategic Asset Allocation process is run by LGIM's Active Quantitative Solutions team in collaboration with the fund managers. They construct a long-term strategic model portfolio which is designed to provide an efficient anchor point of risk, taking into consideration alpha sources, risk premium, correlation and volatility. The next step is the Tactical Asset Allocation process which is derived from the credit risk appetite scoring process. LGIM's economists and market strategists seek to balance long-term macroeconomic themes with short-term cyclical considerations. Credit market scoring meetings take place once a month during 'Strategy Week'. Here, they formalise their risk appetite through a scoring system, using long-term and short-term scores (scaled from -3 to +3). In practice, this represents their expectations for excess credit returns over a longer-term horizon (6-12 months) and a shorter-term horizon (1-3 months) across the different sub-asset classes.

The conclusions from the scorecard provide a framework for portfolio construction, particularly in respect of how and where the managers express risk in the fund. They work closely with the high yield credit analysts who filter the investment universe and look for securities that are consistent with the team's top-down views. They emphasise valuation and assess the probability of default of each security of potential interest. Analysts forecast the issuer's credit metrics and establish a range of outcomes (upside and downside) around their base case assumptions. In constructing the portfolio, they favour a "barbell" approach, creating a defensive core of lower yield, more resilient names alongside higher spread names in which they have conviction.

Portfolio Construction and Risk Controls

The fund invests primarily in high yield corporate bonds across the US, Europe and emerging markets that are BB and B rated, with non-sterling exposures hedged back to sterling. The mandate precludes the purchase of financial bonds and companies rated CCC by two ratings agencies, although should a bond be downgraded, it is not an automatic sell. Similarly, bonds that are upgraded to investment grade can be maintained. Duration is usually within one year of the index. The team may invest up to 10% in collective investment schemes.

This document is for financial professional use only. Fund Research Centre is a trading name of PSIR Limited, which is a company incorporated in England, company number 07791409. The information in this document, including information from asset managers and third-party sources, is deemed to be correct at the time of publication but Fund Research Centre takes no responsibility for its accuracy. This document has been written for illustrative purposes and as such is neither a solicitation nor a recommendation with respect to the purchase or sale of any securities. Opinions are always stated honestly and with careful consideration, but they can change at any time. Full fund documentation provided by the asset manager should be reviewed as part of any decision-making process. Any investment's value and any income from it may fall as well as rise because of market and currency fluctuations. Investors may not get back the amount originally invested. V.4 26/10