Legal & General Active Sterling Corporate Bond Plus

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from an established team and follows a long-standing investment approach.
- Mr McIntyre-Ure and Ms Wu are adept at harnessing the broader team's credit and macro-economic views in building this relatively risk-aware portfolio.
- There is a keen focus upon "avoiding the losers" and LGIM's in-house systems assist the managers in calibrating portfolio risk.

Key characteristics and expected outcome

- This is a diversified portfolio which is managed in a risk-aware manner. In keeping with this, the managers aim to deliver returns in an incremental fashion when compared to the benchmark.
- Nevertheless, the managers will use the bounds of the mandate when the team holds a strong view on specific areas of value within the fixed income market. This means that there is scope for variability in relative performance when higher conviction views are being reflected, although position sizes are still carefully considered in the context of the benchmark.
- We believe the fund can be used comfortably as a mainstay holding within a corporate bond blend and it has the added attraction of a monthly income paying share class.

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 five-year standard deviation is in line with mainstream investment grade benchmarks. We would expect the reasonably diversified nature of the portfolio to produce a volatility outcome that is in keeping with the asset class over most five-year periods. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	20 October 1997
Manager(s) Since:	James McIntyre-Ure (Jul 18) Lan Wu (Jun 24)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Markit iBoxx GBP Corporate Bond Total Return
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 diversified investment grade bond fund that aims to provide an attractive level of income, paid monthly. The approach is risk aware, with the managers aiming to deliver returns in an incremental fashion compared to the index. The fund features in our 'Flexible' category.

Investment Team

The fund is co-managed by James McIntyre-Ure and Lan Wu, both senior credit portfolio manager within Legal & General Investment Management's (LGIM) European Credit team. Mr McIntyre-Ure joined LGIM in 2012, working in the UK Active Credit team. Ms Wu joined LGIM in 2010 as an assistant fund manager. They benefit from LGIM's well-resourced and experienced global fixed income team, which includes top-down investment strategists, an extensive global network of credit analysts and government bond specialists.

Investment Philosophy

The managers aim to deliver an attractive level of income compared to the prevailing environment and an incremental total return profile compared to the fund's index. They seek to do this through a team-based approach that combines macro-economic analysis with rigorous bottom-up credit selection. They favour a well-diversified portfolio and aim to add value primarily through credit and sector selection.

Investment Process

The investment process incorporates a combination of macroeconomic analysis, credit analysis and valuation assessment. This fits with the fixed income team's philosophy of understanding the broad environment affecting the different fixed income classes, with a view to informing the asset allocation preferences and risk positioning for their funds. LGIM's economists and market strategists seek to balance long-term macro themes with shorter-term cyclical considerations. This is formally presented to the entire active fixed income team on a monthly basis and, following debate, the asset allocation preferences are determined. The team formalises its risk preference through a scoring system, using long-term and short-term scores (scaled from -3 to +3), which can be described as their expectations of excess returns/direction of spreads for a long-term horizon (6-12 months) and a short-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 credit analysts who filter the investment universe and look for securities that are consistent with the team's top-down views. They emphasise valuation, together with the overall view of bonds and the appropriate level of risk consistent with that view. The managers will discuss individual bonds with the analysts, but they have final discretion over the fund's investments. High yield bonds are considered on a tactical basis, according to their market views.

Portfolio Construction and Risk Controls

The fund invests at least 80% in investment grade bonds and may hold up to 20% in high yield bonds. The fund is well-diversified by country, sector, issuer and security. Duration is usually within two years of benchmark duration. Non-sterling exposures are hedged back to sterling. The fund is subject to constant review by LGIM's independent risk team.

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