Premier Miton Corporate Bond Monthly Income

Fund Research Centre
Recommended

Why we recommend the fund

- The managers of this Recommended fund have worked together for many years. They established the fixed income franchise at Premier Miton, building the team from scratch.
- The investment approach is collaborative and designed to make efficient use of team resources.
- The mandate is clearly defined, ensuring that the portfolio overall always displays relatively strong credit metrics.
- They are pro-active investors, looking continuously for opportunities to participate in well-priced new issues, as well as taking profits in individual names as bond prices fluctuate. This supports their aim of delivering value to their investors in a consistent manner.

Key characteristics and expected outcome

- The fund is pitched as a high-quality offering, and it typically has greater exposure to A-rated bonds compared to many peers.
- Using a pro-active approach, the managers seek to deliver value incrementally by capturing marginal gains as trading/profit-taking opportunities arise (but with the costs of doing so always in mind). Therefore, turnover is relatively high.
- The fund's aggregate credit quality means that it is likely to achieve superior relative performance during more challenging periods for credit. Equally, it is less likely to participate fully when lower-rated issuers are in the vanguard.
- The permitted duration range of +/- 2 years (relative) means that the portfolio's interest rate sensitivity does not stray too far from that of the index.
- The fund is suited to investors who are looking for an actively managed corporate bond fund where credit quality and diversification from equities are important characteristics.

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 this sector. We believe the team's pro-active and diversified approach, with limited exposure to non-investment grade bonds, should result in a volatility outcome that is in keeping with key indices. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	06 November 1995
Manager(s) Since:	Lloyd Harris (Aug 20) Simon Prior (Aug 20)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	IA £ Corporate Bond
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

An actively managed corporate bond fund where the managers focus upon higher quality bonds issued by stable, investment grade companies. Within its sector, the fund features in our 'Dynamic' category.

Investment Team

The fund is managed by Lloyd Harris, Head of Fixed Income, and Simon Prior, who both joined Premier Miton in 2020. Previously, they worked at Merian Global Investors until its acquisition by Jupiter. They work closely with assistant fund manager, Kishan Paun. The team is relatively small and includes fund managers and analysts.

Investment Philosophy

Philosophically, the managers aim to provide a sterling corporate bond fund that delivers incremental value, provides a resilient income stream and reflects the core fundamentals of the asset class. With respect to the latter point, they have a deliberate focus upon high-quality bonds with the aim of providing diversification from equities and offering relative safety of income and capital compared to riskier assets.

Investment Process

The process begins with the identification of strategic themes that the managers believe will drive the development of the asset class over the long term. Based upon fundamental and technical factors, as well as value assessments, these themes cover areas such as the monetary regime, corporate risk appetite and debt burdens, default cycles and regulations. This provides a framework for the team's model portfolio and helps to focus their research efforts. The model portfolio is updated each month to reflect the managers' perspectives on sectors and the credit market overall, together with duration and yield curve preferences.

From a credit research perspective, analysts cover the industrial backdrop for their sectors, as well as undertaking individual company analysis. Their proprietary analysis is complemented by third-party credit research providers and sell-side strategists. They also work in partnership with colleagues in the equity teams when meeting company management. This work culminates in an internal credit rating. Investment candidates should be attractively valued and any addition to the portfolio should be aligned with the managers' thematic and sector views.

From a risk management perspective, the team assesses relative risk by reviewing sector exposures in terms of spread duration (the sensitivity of the price of a bond to changes in its credit spread). This work results in a risk ranking for each sector and assists with the sizing of individual positions. Furthermore, they are cognisant of market conditions when committing their investors' money, taking into account supply/demand dynamics and other technical factors.

Portfolio Construction and Risk Controls

The fund is diversified and typically features 80-140 names. Portfolio duration can be in a range of +/- 2 years compared to the index (ICE BofA Non-Gilt Index), and there is a limit of 50% in names that are rated BBB or below. It can feature sterling and non-sterling bonds, but all overseas currency exposures are hedged back to sterling. Up to 10% may be held in non-investment grade bonds and contingent convertible bonds, and up to 20% in government bonds / cash. There are also limits in the amount that can be held in specific issuers, scaled according to credit quality. Derivatives and forward transactions may be used for investment purposes as well as for efficient portfolio management. Income is paid monthly as interest distributions.

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