Royal London Corporate Bond

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from an established team and follows a long-standing and strong credit research process.
- The experience of the team members and the diligence of the credit work support their investments in smaller, less liquid and more esoteric issues, through which they seek to add value.
- This forensic credit approach is applied with a clear understanding of the risks of investing in less liquid bonds, through careful blending of positions with higher profile corporate bonds.

Key characteristics and expected outcome

- It is important for investors to have a long-term mindset, given the horizon of the teams' credit analysis and the presence of less liquid holdings in the portfolio.
- These characteristics, combined with the unconstrained philosophy, mean benchmark-driven investors are likely to be more comfortable blending the fund with a more core offering.
- Active duration management is a less important driver of performance for this fund compared to some peers. They seek to generate the bulk of their added value from credit selection.

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 risk score is in keeping with the sector. We would expect periods of higher volatility from this fund, reflecting the conviction with which the team may implement their value-based approach, in terms of large exposures both to particular sectors and to less liquid bonds. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	01 March 1999
Manager(s) Since:	Shalin Shah (Oct 17) Matt Franklin (Jan 22)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	IBoxx GBP Non-Gilts
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 investment grade bond fund managed with a strong focus upon credit selection. The approach emphases the team's specialism in identifying structured / securitised bonds and unrated issues. Within its sector, the fund features in our 'Specialist Credit, Investment Grade Bias' category.

Investment Team

The fund is managed by Shalin Shah and Matt Franklin. Messrs Shah and Franklin are members of Royal London's Fixed Income team which is headed by Will Nicoll. Mr Nicoll oversees a team that includes Paola Binns and Martin Foden, who have been at the group for many years and act as Head of Credit and Head of Credit Research respectively. Mr Shah joined Royal London in 2008 and manages a number of credit portfolios. Mr Franklin joined the firm's credit team in 2014 and manages a variety of sterling corporate bond portfolios. The managers also draw upon a dedicated economist and an established government bond team.

Investment Philosophy

The managers believe that they can add value through detailed credit analysis, implemented in a way that is not constrained by the benchmark positioning. The focus is on identifying long-term under-valuations and often leads the managers to less liquid and more esoteric corporate bond opportunities that are less widely researched by market participants.

Investment Process

The fund's investment process emphasises detailed issuer analysis and credit selection, which are the primary drivers of positioning and performance. The team of portfolio managers and analysts undertake significant research to understand the long-term creditworthiness of each issuer, the likely outcome in a worst-case scenario and the degree to which investors are compensated for these risks. These factors are analysed by calculating an issuer's overall debt relative to earnings, understanding the likely volatility in earnings or other cashflows and analysing the investor protection offered by the security and covenants related to individual bonds. For high profile, more liquid bonds, much of the input data is sourced from rating agencies while internal modelling is emphasised for less liquid bonds, which may be unrated or more complicated structures which are often securitised.

Portfolio construction decisions are supported by a relative value assessment that considers the yield and spread of each issuer in the context of its leverage, credit rating and trend in creditworthiness. The managers are mindful of the absolute value of the asset class, using inputs from the firm's economist to inform the preferred aggregate credit risk in the portfolio, according to their comfort regarding yield and spread levels.

Portfolio Construction and Risk Controls

The issuer profile of the fund should be expected to differ significantly from that of the index. It may incorporate meaningful sector biases and also exposures to unrated and securitised bonds where the internal credit research identifies areas of value, albeit often alongside lower liquidity. They blend these positions with selected higher-profile issuers in order to manage the overall risk/reward profile of the portfolio. Duration exposure is managed actively but typically within a range of +/- 2 years of the benchmark. Up to 10% of the fund may be invested in other collective investment schemes. Most importantly, the managers seek to ensure it does not overwhelm credit selection in terms of its contribution to portfolio risk.

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