

Invesco Tactical Bond

Sterling Strategic Bond

Introduction

The fund is managed by the Invesco Fixed Income team with the aim of producing an absolute return over a three-year period with low volatility. The fund sits in the IA Sterling Strategic Bond sector but is run on an absolute return basis. The fund invests primarily in government and corporate bonds but also uses derivatives as a way to generate returns and manage risk. The fund is sterling based but can have up to 20% of the NAV in overseas currencies. The fund has no credit or duration restrictions and can be flexible on duration positioning.



[Click here to read the Invesco approach to ESG investing.](#)

Why RSMR Rate this Fund

- A high quality well-resourced team.
- A proven track record in managing fixed interest funds.
- A lower volatility way to gain exposure to fixed interest markets.

Fund Process

The team's investment philosophy is built on a belief that fixed interest markets are mostly efficient but continually present opportunities. By exploiting market inefficiencies through fundamental analysis and a strong emphasis on macroeconomic factors they aim to deliver consistent, long-term outperformance under most market conditions. There is a strong emphasis on the macro aspects prior to stock selection taking place.

The aim of the portfolio construction process is to gain exposure to the most attractive ideas within the investment parameters of each fund and to express their views on fixed interest markets. The macroeconomic views play an integral role in all the main investment decisions. The focus of the team's macro work is on the development of a view about the general direction and structure of interest rates, and the trend in the pricing of credit risk. To a large extent these broad views set some important individual bond parameters, such as preferred maturities, yields, sectors and overall credit risk tolerances. The macro view and analysis also provides the foundation on which duration, yield curve and credit strategies are built. There are also some more subtle tactical overlays that are not determined by the broader indicators and the managers include these factors in the overall positioning of the fund.

The portfolio construction process brings together the output of the team's top-down and bottom-up analysis. The emphasis between these two sources of added value changes over time. Individual bond weightings are decided very much on a case-by-case basis using qualitative judgment and analysis. The team believe this creates a fund sufficiently diverse to reduce risk and improve liquidity whilst maintaining its active nature. The number of securities held will vary according to the underlying investment strategy and the investment ideas found. Generally, when the fund managers find more attractive opportunities in sectors of the market with a higher credit rating, the fund will tend to be less diversified. Conversely, if more attractive opportunities are found in the higher yielding areas of the market, they will tend to be more diversified. These are general considerations rather than tightly defined constraints. They seek to maximise total returns primarily through a flexible allocation to fixed interest securities and cash. They may hold significant positions in cash and near cash instruments for long periods of time in line with the fund's investment objectives. Duration is generally kept low as they see this as the biggest risk factor in a fixed interest fund.

Evaluation

The fund has the ability to perform well in absolute terms in any environment as the team have the flexibility to manoeuvre the positioning to benefit from different outcomes. The fund has a flexible approach to duration positioning.

Application

The fund should be used more as an absolute return style fund than a traditional strategic bond fund. Returns have ended to differ from the sector and benchmark due to duration and credit positioning.

Our Opinion

We have known the Invesco fixed interest team for many years, and they are one of the strongest teams in the industry. They are well resourced and manage a number of different strategies giving them exposure to all elements of the fixed interest market which is beneficial for running a strategy like this. The team are naturally more defensive in nature and focus on the downside risk, which is expressed in the fund.



Important Notice

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