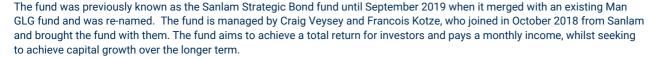


Man GLG Strategic Bond

Sterling Strategic Bond

Introduction

(Offshore)





Click here to read the Man Group approach to ESG investing.

Why RSMR Rate this Fund

- The fund is run by a well-established team, who have developed and fine-tuned the investment process over time, incorporating their own
 proprietary valuation model, the Credit Adjusted Valuation Scoring System ('CAVS'), which allows efficient screening and monitoring of bond
 valuations.
- The team is well resourced. The managers work with two dedicated analysts and can call on Man GLG's extensive expertise in the fixed income space, allowing managers and analysts to share information and ideas.
- The Strategic Bond Fund is managed on an unconstrained basis, enabling managers to access ideas from all areas of the market, although performance is anchored by an 80% minimum weighting to investment grade government and corporate bonds, incorporates a risk aware approach, and limits exposure to currency and sub investment grade holdings.
- The investment process aims to generate returns in all market conditions and the focus on a monthly income payment offers the prospect of compounded returns over a market cycle. The strategic approach and use of a 'tactical' overlay can help to manage risk and limit downside, producing returns that are uncorrelated to the equity and bond markets.

Fund Process

There are two diversifying elements which form the basis of the strategy's long term investment objective:

The Strategic element: The core focus of the strategy, using a value driven approach to identify undervalued corporate bonds.

Using their own proprietary valuation model, 'CAVS', to screen and monitor bond valuations, the team seek bonds with attractive valuations and identifies potential catalysts to drive these to fair value. The managers argue that by identifying such situations, the strategy can outperform, regardless of the direction of credit markets and the interest rate environment. Once valuations and catalysts are identified, individual bonds are then subject to in-depth bottom-up credit research, focussing on solid balance sheets and corporate strategy.

The Tactical element: A highly active overlay to the strategic element employing a dynamic allocation to government bonds and currencies to enhance total returns and potentially manage downside risks. The Tactical strategy is a predominantly quantitative process that has been successfully implemented since the fund's inception. It focusses on the analysis of short-term return drivers and portfolio risk management techniques to actively manage duration and currency exposure.

Evaluation

The fund should be well suited to generating excess returns in most market conditions, given the focus on fundamentally undervalued situations. Where inflation and interest rates are relatively stable, the managers should be able to generate excess returns over the broader investment grade markets. However, when markets experience extreme volatility and periods of sudden and unexpected periods of inflation and central bank rate hikes, such as those experienced in 2022, even with the tactical strategy overlay, it is unrealistic to expect the fund to be wholly insulated from a fall in capital values.

During 2020, the fund underperformed to a significant extent – the tactical element performed badly, and the managers admitted to being too slow to reduce risk within the fund and underestimated the impact of the onset of the Covid-19 pandemic. Following a review, the weight of qualitative inputs into the tactical strategy was reduced and GLG's quantitative analysis team now provide additional input, identifying trend and risk factors. Performance in 2021 and 2022, showed a marked improvement relative to the IA Strategic Bond sector, indicating a return to form.

Application

Due to its focus on undervalued situations requiring specific catalysts to rerate, the fund might be better regarded as a special situation bond strategy with an active risk overlay. It would probably be best used as a satellite strategy and held in combination with funds which focus more on the macro-economic environment and valuations across all sectors of the bond market, rather than individual credits.

Our Opinion

The disappointing performance during 2020 dented confidence in the investment strategy, which until that point had performed well. The action by the managers to identify the cause of the underperformance and the measures implemented to prevent its recurrence appear to be working and during 2022, the fund performed relatively well, in very difficult market conditions. The management team are well established and resourced and we'd expect the fund to outperform the investment grade bond market over time.



Important Notice

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