Royal London Global Index Linked

Global Inflation Linked Bond

Introduction

The fund's investment objective is to achieve a total return (combination of capital growth and income) over the medium term (3-5 years) by investing at least 80% in index-linked bonds issued by governments globally. The fund's performance target is to outperform, after the deduction of charges, the Barclays World Government Inflation Linked Bond Total Return Index (GBP hedged) over rolling 5-year periods.

Click here to read the Royal London approach to ESG investing.

Why RSMR Rate this Fund

- The fund has remained consistent with its process over the medium and long term

- The management team have been in place since inception.

- RLAM have a well established and resourced fixed interest team

- Relative performance has been consistently ahead of benchmark

Fund Process

The first stage is economic research which begins with a quarterly Economic Assessment, prepared by RLAM's chief economist. This assessment covers all major economic regions and produces forecasts for the three key variables in each economy: GDP growth, inflation and policy rates. The policy rate forecast, or 'rate strip', is a key input to the forecasting model for short, medium and long-term yields. This rate strip covers a 36 month horizon for each economy. The 36 month base rate forecasts from the quarterly economic assessment are used as an input into RLAM's proprietary G10 Yield Curve Generator – developed in-house by RLAM's quantitative analysts. The model develops full yield curves for each economy and generates investment ideas that can be discussed by the team – it is not a given the ideas will be adopted, it is seen as a starting point.

A discounted cash flow (DCF) model is used to calculate the present value of a government issued index linked securities. They use this to calculate an effective breakeven rate by comparing the calculated yield to maturity to a corresponding nominal yield on a conventional government bond of a comparable maturity. If the effective breakeven rate is positive, then the index linked bond is cheap on a breakeven basis, whilst if the differential is negative, the bond is expensive. A second model is then used which is called the dirty pricing model which, rather than comparing yield moves which can be distorted by the effects of 'carry', compares total returns using a bonds dirty price and known coupon payments. They adjust this for duration which they feel provides them with a more realistic picture.

Models are only one contributory factor in any decision on stocks. In addition, they consider stock specific factors that are vitally important, such as changes to indices and potential issuance. There are anomalies from time to time which can be exploited. Significant value can be added through stock selection which allows them to take less aggressive positions at the duration level in order to achieve the expected returns. Strategic and tactical relative value opportunities are identified within each individual G10 market (intra market) and between G10 markets (cross market). Further relative value opportunities are identified in response to market movements and events, and opportunities in the market are identified either against historical relationships or in comparison to the output of their forecasting models. Investment ideas, along with fund positioning, fund risk and strategy are discussed and debated during the weekly Fixed Income team meeting. The managers of the fund work with the rest of the Government Bond team on tactical trading opportunities as and when they arise in the market. All strategy recommendations are volatility adjusted to ensure the risk exposure taken by the portfolio is in line with client guidelines and performance objectives. Strategic positions are typically larger than tactical positions, are built gradually up to the agreed target size over time, and can be adjusted on a tactical basis depending on market conditions.

Evaluation

This is part of the range of funds available from RLAM that can help investors reduce some of the risks that exist within a rising rate environment. The fund is based around a well established long serving team which operates cohesively across a wide variety of products.

Application

The fund would be seen a more specialist, and is probably to be used in relevant economic conditions. A rising rate environment might be appropriate for example.

Our Opinion

This is part of a range of fixed interest funds which is one of the most comprehensive in the retail market. It is run by a longstanding team which is high conviction in its approach but also pragmatic in its execution of the strategy. Stock selection is a strong element of the process after models have identified potential areas of interest and it is here that the final incremental gains can be made particularly in cross market opportunities.

RSMR
Our Research. Your Success.