

Royal London Short Duration Global Index Linked Bonds

Global Inflation Linked Bond

Introduction

The fund seeks to maximise total investment return (including income and capital growth) over the medium term by investing mainly in UK and global index linked bonds. The fund may also invest in Floating Rate Notes (FRNs), Money Market instruments and gilts as the manager deems appropriate. Non-sterling assets will be hedged back into sterling.



[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 of economic research is the foundation for progressing and 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 in 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 bond's 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 would probably used in relevant economic conditions. A rising rate environment that was seen to be more volatile 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 a longstanding team which is high conviction in its approach but also pragmatic in its execution of the strategy. To a degree this is a restricted mandate because of the shorter duration controls over the fund which can make it more formulaic in its operation, however both strategic and tactical opportunities are identified by the team which are debated and implemented. 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.

Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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