Invesco Corporate Bond (UK) Z Inc

April 2024

Opinion

Square Mile rating

Performance

3 years annualised returns

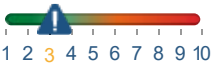
-0.74%

% of time met performance objective over 5 years

36.4%

Risks

Risk of asset class



Risk of fund within asset class

-21.33%

3 years max drawdown

Costs

Ongoing charges

0.50%

Transaction costs

-

Total cost of investment

0.50%

Responsible

What type of investor are you?

Ethical Exclusion ☐

Sustainable Solutions ☐

Responsible Practices ☐

Impact Investor ☐

Source: Square Mile and Refinitiv, Data as at: 31st March 2024.

Overview

This fund generates income through investment into corporate bonds. The level of income is not explicitly targeted and will vary depending on the market environment. The current level of yield has been increasing since the beginning of 2022, reflecting the higher interest rate environment. There is potential for some capital appreciation, though this is a secondary consideration.

Square Mile's Expected Outcome

We believe that outperforming the ICE BofA Merrill Lynch Sterling Corporate Bond index over a rolling five year period, is a reasonable expectation for this fund.

Square Mile's Opinion

The team members have proved themselves capable of producing solid risk adjusted returns over medium to long time periods thanks to their emphasis on risk, identifying long term value opportunities. However, investors should note that this can take some time to play out and in the short to medium term the fund's performance may differ substantially from that of the benchmark. The managers run this as a relatively high conviction strategy, and are not afraid to express their opinions through the fund's positioning when they see value in the market.

The conservative stance towards interest rate and credit risk over the recent years has led to a more defensive risk return profile relative to its sector. As such the fund has tended to lag when the corporate bond market rises but has outperformed at periods of market distress. That said, as valuations become attractive, the managers are able to add risk to position the fund to deliver returns in more risk on scenarios. The fund is likely to be suitable for investors who wish to access an income stream secured by high quality issuers, with the potential for some capital upside, and who are prepared to hold the fund for medium to long periods (at least 3 years).

For the last few years, while reducing the volatility of returns, the fund's structural underweight to interest rate duration had been a headwind to the fund's performance. However, this has reveresed with interest rates rising since the beginning of 2021.

Fund Manager's Formal Objective

The objective of the Fund is to achieve income and capital growth over the medium to long term (three to five years plus). The Fund invests at least 80% of its assets in investment grade corporate debt securities. The Fund may use derivatives (complex instruments) for investment purposes and to manage the Fund more efficiently, with the aim of reducing risk, reducing costs and/or generating additional capital or income.

Outcome: Capital Accumulation, Income	**Domicile:** UK
Active/Passive: Active	**Benchmark:** IA Sterling Corporate Bond
Asset Class: Fixed Income	**IA Sector:** IA Sterling Corporate Bond
Yield: 3.67%	**Fund size:** £1,617 M
Fund Manager: Michael Matthews, Tom Hemmant	**Distribution Pay Date:** June, December
Fund Price: 1.9 Pounds	**Dividend Frequency:** Semi-annual
Currency of Share Class: GBP	**Share Class Launch Date:** 12/11/2012

Source: Square Mile and Refinitiv, Data as at: 31st March 2024

Asset Manager Overview

In June 2021, Invesco's Co-Heads of Fixed Interest Paul Read and Paul Causer, who have managed the fund since its launch, announced that they will be retiring from Invesco at the end of 2021. As of January 2022, the fund will continue to be managed by Michael Matthews who will also be co-Head of Fixed Interest at Invesco. Mr Matthews became co-manager of this fund in 2013, having started his career in 1995 when he joined the fixed income team at its inception in 1995. From 31 August 2020 Tom Hemmant joined as co-manager on the fund. Mr Hemmant has been part of the Invesco fixed interest team since 2011, where he has been a senior investment analyst with responsibilities for utilities, energy, materials and construction. In addition, the managers can draw upon a team of credit analysts, risk analysts and the wider resources of Invesco. Based in Henley-upon-Thames, Invesco is one of the largest investment management groups in the UK and is part of the Invesco Ltd Group, a leading global investment manager listed on the New York Stock Exchange.

The team's investment philosophy is built upon the premise that markets are mostly efficient but continually present opportunities. This may be because they overshoot, moving prices away from fundamental value, because of the different objectives of investors, or constraints of individual investors. The managers aim to exploit such inefficiencies through fundamental analysis with an emphasis on valuation, assessing potential risk versus potential return. The process is designed to be flexible and will change according to market conditions, recognising that different factors drive markets at different points in time. We believe this is a sensible approach, and it can prove particularly valuable at times of market stress.

The investment process looks to combine three elements: macroeconomic analysis, company evaluation and value assessment. The process begins with top-down analysis, seeking to understand the current macroeconomic environment and to make informed forecasts of future conditions. This work focuses on the path of interest rates and trends in the pricing of credit risk. These views then form the foundations for the positioning of the fund, including interest rate risk, yield curve positioning and credit risk. Having determined their positioning of broad risk factors, the managers then turn their attention to bottom-up stock selection. This analysis assesses whether or not a company can meet its obligations in terms of interest on and repayment of debt. Various measures are examined, including the extent of a company's gearing, its earnings and its financing costs. The emphasis is always on how these measures are changing rather than a static analysis. The result of this analysis should be a thorough understanding of the risks of a given investment, enabling the managers to maximise returns from acceptable and well understood credit risk exposures. The final step in the process is to assess value, on both a relative and absolute basis, taking into account the risks identified in the previous step. A judgement is then made as to whether the potential returns of a bond sufficiently justify the risks, both on an absolute basis and relative to cash, government bonds and other corporate bonds. This should enable the managers to identify and invest in the bonds with the best returns on a risk-adjusted basis, within the parameters of the fund's mandate.

The fund will hold at least 80% of its assets in investment grade corporate bonds, but can hold up to 20% in sub-investment grade or government bonds. Cash is actively managed, both for liquidity purposes and as an asset allocation tool. Currency exposure is usually hedged back to sterling. Derivatives may be used both for hedging and investment purposes.

ESG Integration

Asset Manager ESG Integration

Invesco is a strong advocate of responsible investing practices. It became a signatory to the UN Principles for Responsible Investment in 2013, and at its most recent assessment scored 4 out of 5 for Investment & Stewardship policy. In March 2021, Invesco became a signatory to the Net Zero Asset Managers initiative, to help investors be aligned to a low-carbon future. In the UK, Invesco Henley Investment Centre is a signatory to the UK Stewardship Code and has achieved a Tier 1 Status.

Invesco diversity and recognition of the differences across asset classes means that investment strategies will vary in their approaches to implementation of ESG aspects. Therefore, the fund managers have discretion in taking a view on any given ESG risk or opportunity. However, the global ESG team formed of 15 professionals is responsible for leveraging best practices in ESG capabilities including ESG integration, voting and engagement.

Over the course of 2021 Invesco launched a new proprietary ESG rating tool, ESGIntel, to be used as the basis of sustainability risk identification and due diligence for the different investment teams.

Fund ESG Integration

In the course of meeting companies and conducting research into the underlying securities in the fund, both the managers and analysts, will assess any environmental, social and governance (ESG) factors which they believe could have an impact on a security's valuation or where they believe it is in the best interests of clients to explore such factors. Invesco has developed a proprietary tool, ESG Intel, where all the ESG related information provided by the research analysts is available for the portfolio managers and is used as an input into the decision to whether buy or sell a bond.

Risk Summary

The fund invests in fixed interest instruments and the major risks are likely to be interest rate risk and credit risk. The managers attempt to mitigate these risks through active asset allocation, interest rate management and credit analysis. However, investors should be aware that they are always likely to be significant. Despite the managers' careful analysis of the bonds in the fund, all corporate bonds carry a risk of default and investors should be aware that it is possible that a bond in the fund could default on its obligations. This fund is well diversified and the impact of any one bond defaulting should thus be small. The managers invest with a high conviction style and the fund can take relatively large positions at times. Whilst this has proved to be beneficial to investors of the fund over time, it can result in significant deviations from the index, and returns that are markedly different from both the index and other funds investing in similar instruments, particularly over the short term. Ultimately we believe that the risks in this fund are well managed, but there will always be risks present.

Additional Information

Annualised Return: -0.74%

Annualised Volatility: 7.52%

Max Drawdown: -21.33%

Max Gain: 6.27%

Max Loss: -13.43%

Sharpe Ratio: 0.00

Sortino Ratio: -0.16

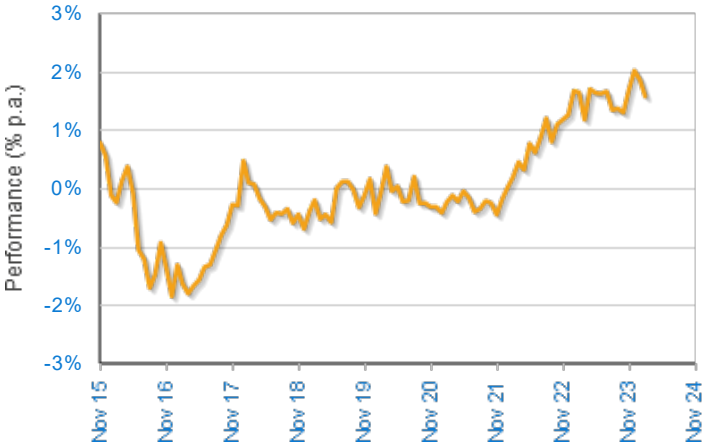
(3 years data to last month end unless otherwise stated)

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk			●
Interest Rate Risk	●		
Credit Risk	●		
Exchange Rate Risk			●
Liquidity Risk		●	
Emerging Markets Risk			●
Derivative Risk		●	
Manager Risk	●		

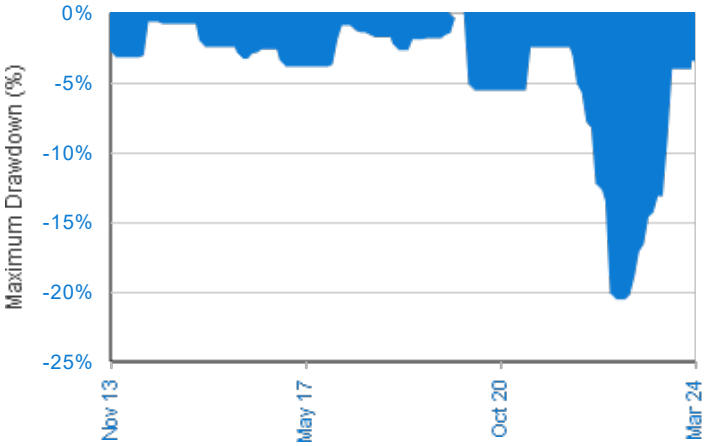
For the full summary of the risks, click here

3 Year Rolling Sector Outperformance



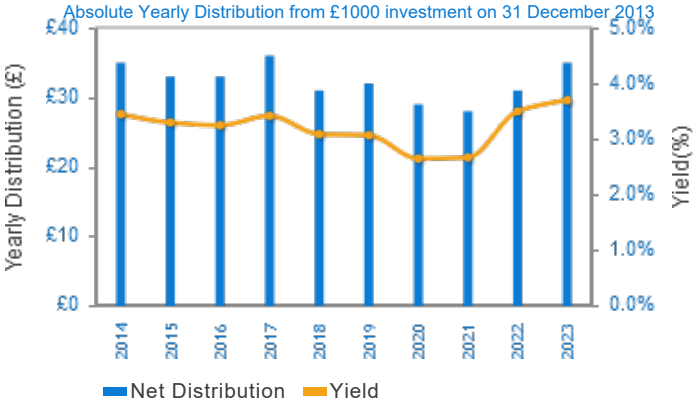
Source: Square Mile and Refinitiv, Data as at: 13th March 2024. Share price total return.

Maximum Drawdown (Rolling 12 Months)



Source: Square Mile and Refinitiv, Data as at: 8th April 2024

Income



This graph assumes that income is distributed to shareholders and not reinvested.
Yield represents share price fluctuations.

Source: Square Mile and Refinitiv, Data as at:

Calendar Year Performance To Quarter End

Period	Fund (%)	Sector (%)
2023	11.5	9.3
2022	-13.6	-16.4
2021	-1.3	-1.9
2020	7.6	7.8
2019	8.4	9.4

Source: Square Mile and Refinitiv, Data as at: 14th April 2024

Value for Money

The total cost of investment (TCI) of the fund is just in the median for the peer group. We believe this represents good value for money given the experienced management team and the investment process which is both well thought-out and closely adhered to. In addition, the attractive risk return profile of the fund, thanks to the emphasis in protecting investors' capital in falling markets, justifies the fee in our view.

Following the introduction of MiFID II regulations, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. Invesco absorbs the costs associated with its research, which should slightly reduce the overall fee paid by investors.

OCF v Peer Group

0.50%

Transaction Costs v Peer Group

-

TCI v Peer Group

0.50%

Source: Square Mile and Refinitiv, Data as at: 31st March 2024.

The Square Mile ratings are reviewed every 6 months. For full details on the methodologies, click here.

For a full list of all Square Mile rated funds, click here.

Disclaimer