

# Invesco Tactical Bond (UK) Z Inc

November 2021  
Investment Research



## Overview

This fund generates income through investment into government and corporate bonds. The level of income is not explicitly targeted and will vary depending on the market environment. The current level of yield is relatively low compared to the fund's history, reflecting the interest rate environment. There is potential for some capital appreciation, though this is a secondary consideration.

In practice, we believe the managers aim to generate a total return above government bonds over a full interest rate cycle, rotating through the various parts of the fixed income markets as the cycle progresses, and are indifferent between capital return and income.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

## Square Mile Expected Outcome

We believe a return of 1 month GBP Libor plus 2% p.a. over rolling five year periods, net of fees, is a reasonable expectation for this fund.

<b>Active/Passive:</b> Active	<b>Domicile:</b> United Kingdom
<b>Asset Class:</b> Fixed Income	<b>IA Sector:</b> IA Sterling Strategic Bond
<b>Launch Date:</b> 01/02/2010	<b>Fund Size (as at 30 Sep 2021):</b> £829.8m
<b>Yield:</b> 2.56%	<b>Distribution Pay Date:</b> May 01, Nov 01 (Final)
<b>Fund Manager:</b> Julien Eberhardt, Paul Causer, Stuart Edwards	<b>Ongoing Charge Figure:</b> 0.75%
	<b>Transaction Cost ex Ante:</b> 0.13%



## Fund Opinion

The team's careful process identifies suitable value opportunities which have generated good performance for the fund, although investors should note that these 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 wider market. This is a flexible mandate, and the managers have the freedom to invest across government and corporate bond markets worldwide. It can, at times, take large positions and could in theory be 100% invested in, for example, government bonds or sub-investment grade debt. In reality it is likely to have positions in various markets, and will usually have a focus on corporate bonds. The managers run this as a high conviction strategy, and are not afraid to express their opinions through the fund's positioning when they see value.

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. The fund is likely to be suitable for investors looking for income with the potential for some capital upside, and who are prepared to hold the fund for medium to long-term periods (at least 3 years).

While the retirement of Paul Causer and Paul Read, co-heads of the Invesco Fixed Income team, at the end of 2021 will be a real loss to the team, we believe the fund is in good hands under Stuart Edwards and Julien Eberhardt. The managers clearly understand the fund's philosophy and process, having both been members of the team for over 10 years, therefore ensuring continuity in both the fund's philosophy and process. Our conviction in this fund remains on the basis of the experienced team and their high conviction, valuation aware approach. Whilst this approach can lead to variable returns to the market, we believe it has resulted in good outcomes for investors over time.

## Fund Description

In June 2021, Invesco's Co-Heads of Fixed Interest Paul Read and Paul Causer, who have managed the fund since its launch in 2010, announced that they will be retiring from Invesco at the end of 2021. As of January 2022, existing co-manager Stuart Edwards and Julien Eberhardt will be responsible for the funds. Mr Edwards has been a fixed interest fund manager at Invesco since 2010, and was added to co-manager to the strategy in August 2020. Mr Eberhardt joined the team in 2008 as a fixed interest credit analyst specialising in financials and was appointed fund manager of several portfolios in December 2016 and to this fund in September 2021. The promotions reflect their contribution to the team and process over the years and provide continuity to the fund's philosophy and process.

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. It forms 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 markets overshoot, moving prices away from fundamental value, because of the different objectives of investors, or because of mandate constraints. The managers attempt to exploit such inefficiencies through fundamental analysis with a strong 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. The investment process looks to combine three elements: macroeconomic analysis, company analysis and value assessment. The process begins with top-down economic 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 asset allocation (across government, investment grade corporate and sub-investment grade corporate bonds), interest rate risk, yield curve positioning and corporate credit risk. Having decided their positioning of these broad risk factors, the managers then turn their attention to bottom-up stock selection. This analysis assesses whether or not an issuer can meet its obligations in terms of interest on and repayment of debt. Various measures are examined, including the extent of gearing, earnings and 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, which will enable the managers to create a portfolio where they look 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 corporate bonds. This should enable the managers to identify and invest in the bonds with the best returns on an absolute risk-adjusted basis, within the parameters of the fund.

## Risk Summary

The fund's managers invest in fixed interest instruments and so the major risks are likely to be interest rate risk and credit risk. The managers attempt to moderate 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.

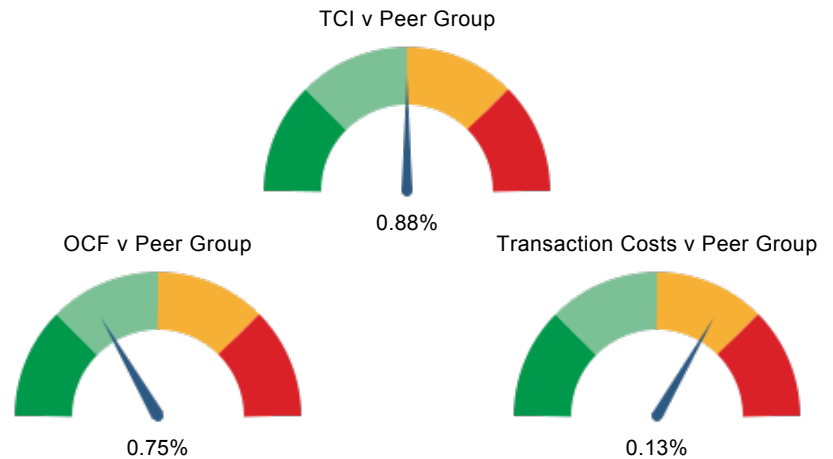
Despite the team's careful analysis of the bonds in the fund, all corporate bonds carry a risk of default and investors should be aware that it is possible that a bond in the fund could default on its obligations. Though, as this fund is well diversified, the impact of any one bond defaulting should be small.

Given the flexible nature of the fund's mandate, different risks may dominate at different times depending on the managers' views. Whilst there will always be risks present in a fund such as this, ultimately we believe that the managers of the fund are skilled at managing them and will only take on risk where they believe that the potential rewards adequately compensate them for doing so.

## Value for Money

The total cost of investment (TCI) of this fund is around the median for the peer group. We believe that this represents fair value for money over the long term, given the experienced management team and the investment process applied, which is both well thought-out and closely adhered to.

Following the introduction of MiFID II regulations, asset management firms are 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 slightly reduces the overall fee paid by investors.



## ESG Integration

<b>Company Assessment</b>	0	1+	2	3
The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.				
<b>UN PRI Strategy &amp; Governance Rating</b>	A+			
<b>Fund Assessment</b>	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

## Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Additional Information

<b>Annualised Return</b>	6.09%
<b>Annualised Volatility</b>	3.71%
<b>Max Drawdown</b>	-6.10%
<b>Max Gain</b>	5.37%
<b>Max Loss</b>	-6.10%
<b>Sharpe Ratio</b>	1.50
<b>Sortino Ratio</b>	1.17

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

### Currency of Share Class

GBP

### Fund Price (as at 12 Nov 2021)

228.0 pence

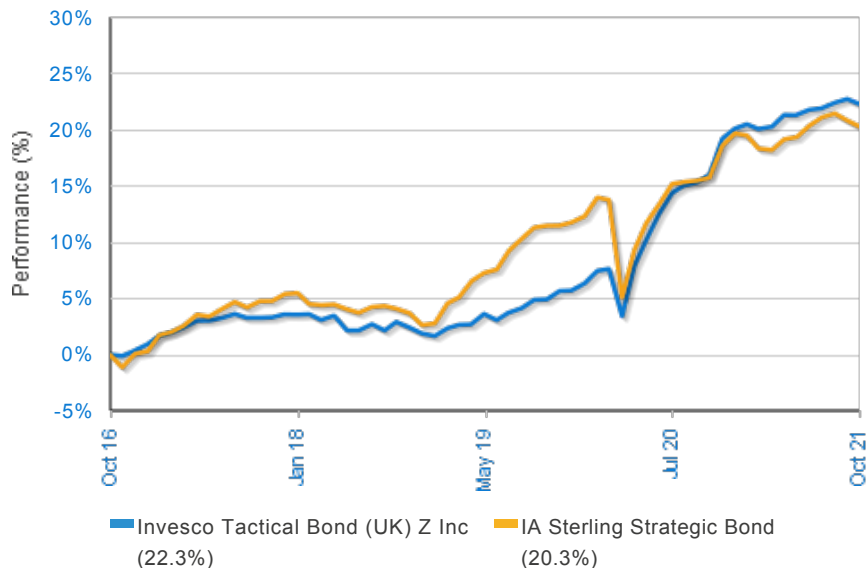
### Benchmark

3 month UK Treasury bills

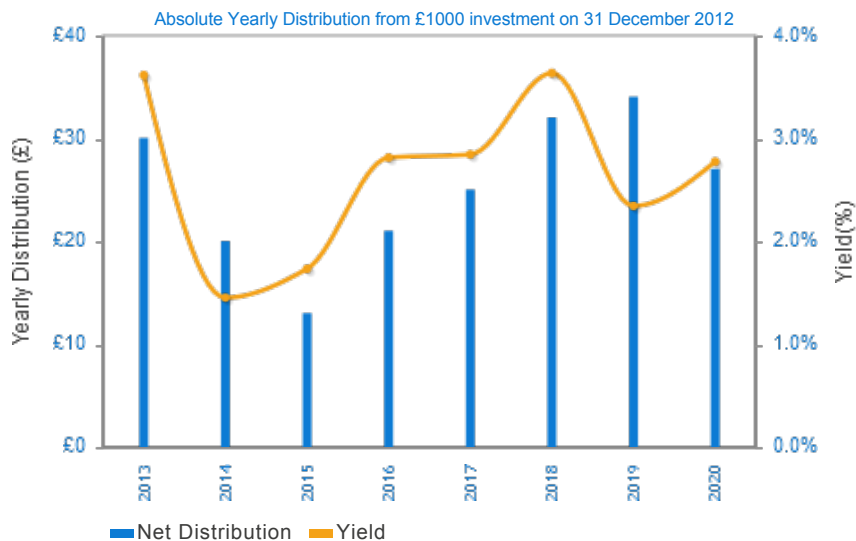
### Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	6.4	4.6	2
12-24m	9.9	3.6	1
24-36m	1.9	7.1	4
36-48m	-0.4	-0.1	3
48-60m	3.3	3.3	2

### Capital Growth

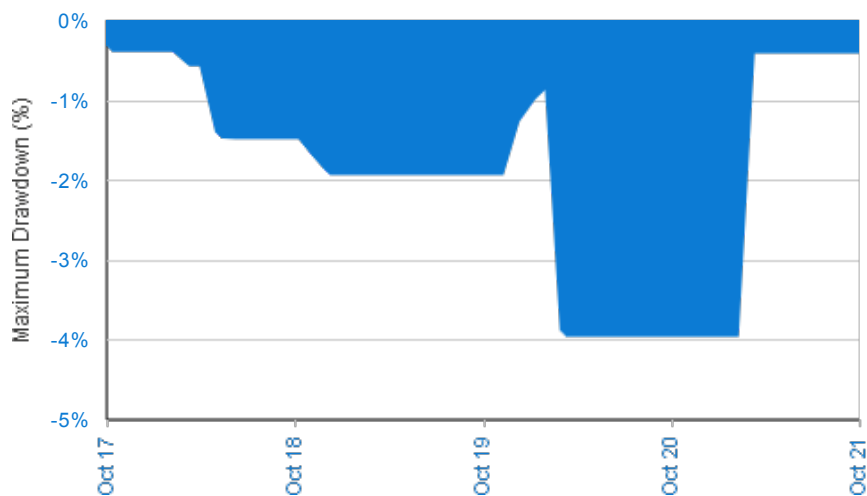


### Income



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

### Maximum Drawdown (Rolling 12 Months)



### Credit Rating (Data as at 31 Oct 2021)

Name	%
AAA	11.8
AA	5.0
A	7.0
BBB	30.1
BB	28.0
B	9.3
Cash	6.8
Non-Rated / Others	1.1

### Bond Maturity

(Data as at 31 Oct 2021)

Name	%
Cash & Floating Rate Notes	6.8
1-3 Years	-
3-5 Years	69.0
5-15 Years	21.7
15+ Years	2.5

### Asset Allocation Positioning

Name	%
Global High Yield Fixed Interest	39.7
Global Investment Grade Fixed Interest	38.1
Global Investment Grade Fixed Interest	13.4
Money Market	7.1
Alternative Investment Strategies	0.6
Global Fixed Interest	0.6
Global High Yield Fixed Interest	0.5

(Data as at 30 Sep 2021)

### Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
UNITED STATES OF AMER TREAS NOTES 0.125% TNT 30/06/23 USD100	5.4
INVESCO LIQUIDITY FUNDS PLC STERLING LIQUIDITY PORTFOLIO AGENCY GBP	4.7
UNITED STATES OF AMER TREAS NOTES 0.125% TNT 30/04/23 USD100	4.5
ING GROEP NV FRN 31/12/49 USD200000	2.5
UNITED STATES OF AMER TREAS NOTES 0.75% TNT 30/04/26 USD100	2.2
BNP PARIBAS SA 6.75% BDS 31/12/49 USD200000	2.0
VIRGIN MONEY UK PLC 8% SUB CNV UNDATED BDS GBP200000	1.9
PINEWOOD FINANCE LTD 3.25% BDS 30/09/25 GBP100000REG S	1.8
BARCLAYS PLC 7.875% UNDATED BDS GBP200000	1.7
BANKIA SA 6.375% BDS 31/12/66 EUR200000	1.7

### Sector Breakdown

(Data as at 30 Sep 2021)



- Banks (42%)
- Government Bonds (15%)
- Money Market (7%)
- Automobiles (7%)
- Media (4%)
- Telecommunications (4%)
- Insurance (4%)
- Utilities (2%)
- Media (2%)
- Other (12.6%)

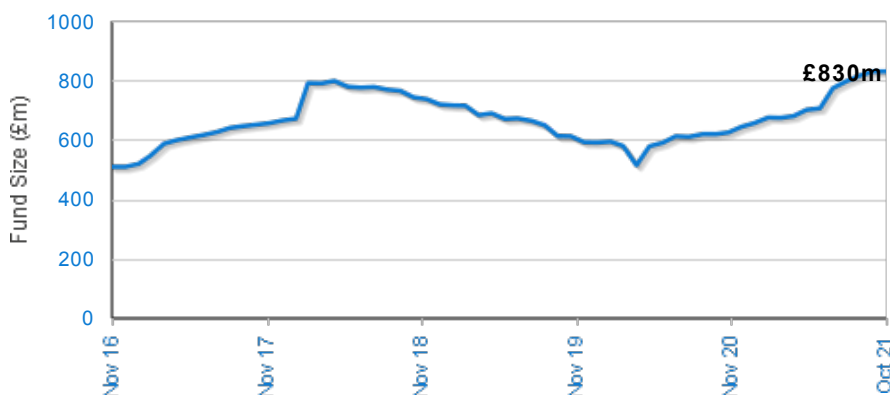
### Geographic Breakdown

(Data as at 30 Sep 2021)



- UK (34%)
- USA (22%)
- Money Market (7%)
- Spain (6%)
- Italy (6%)
- Germany (5%)
- Netherlands (5%)
- France (5%)
- Others (4%)
- Other (5.1%)

### Assets Under Management



## 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	●		

### Equity Risk

The fund has no material direct exposure to shares.

### Interest Rate Risk

The fund is predominately invested in high quality fixed interest markets. The fund price may fall if interest rates climb more rapidly than expected.

### Credit Risk

The fund has significant exposure to high grade corporate debt. Widespread credit downgrades may adversely impact the fund price, typically this occurs at times of economic weakness.

### Exchange Rate Risk

The fund has exposure to assets denominated in foreign currencies but the manager intends to largely hedge the foreign exchange risks away.

### Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

### Emerging Markets Risk

The fund predominantly invests in securities issued by governments or companies in developed markets.

### Derivative Risk

The fund employs derivative strategies to mitigate and more accurately manage the risks within the fund. These are complex instruments and investors should be aware that there is a chance that they may not behave in a manner that the manager intends.

### Manager Risk

The managers are seen as an important element in Square Mile's rating of the fund. Square Mile is likely to consider the fund's rating if either manager were to leave.

FE Risk Rating: 18.00

SRRI: 4

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