# JPM Unconstrained Bond C Gr Inc

**November 2021**
**Investment Research**

### Opinion

Square Mile rating

A

Exclusion ☐
Sustainable ☐
Responsible Practices ☐
Impact ☐

FE fundinfo crown rating

FE fundinfo Crown Fund Rating

### Performance

3 years annualised returns

**3.16%**

% of time met performance objective over 3 years

**98.2%**

### Risks

Risk of asset class

1 2 3 4 5 6 7 8 9 10

Risk of fund within asset class

1 2 3 4 5

SRRI
**3**

**-6.68%**
3 years max drawdown

### Costs

Ongoing charges
**0.60%**

Transaction costs
**0.13%**

Total cost of investment
**0.73%**

### ESG

Company

| | | | |
|---|---|---|---|
| 0 | 1 | 2 | 3 |

Fund

| | | | |
|---|---|---|---|
| 0 | 1 | 2 | 3 |

## Overview

The managers aim to deliver positive long-term returns above cash over an interest rate cycle (3-5 years). Whilst there is no guarantee of capital protection, we believe that the managers' careful process and focus on risk, in particular downside risk, should afford investors a degree of capital preservation over the longer term. Investors should note that in the short and medium term there may be some degree of capital volatility, and that capital protection is not guaranteed over any time period.

| Capital Accumulation | Capital Preservation | Income | Inflation Protection |
|---|---|---|---|
| | ● | ● | |

## Square Mile Expected Outcome

We believe this fund should be able to outperform cash, as measured by SONIA, by 2.5% per annum over an interest rate cycle, which we consider to be at least five years.

| | |
|---|---|
| **Active/Passive:** Active | **Domicile:** United Kingdom |
| **Asset Class:** Fixed Income | **IA Sector:** IA Targeted Absolute Return |
| **Launch Date:** 06/05/2009 | **Fund Size (as at 12 Nov 2021):** £434.8m |
| **Yield:** 2.59% | **Distribution Pay Date:** Monthly |
| **Fund Manager:** Andrew Headley, Bob Michele, Iain Stealey, Jeff Hutz, Lisa Coleman | **Ongoing Charge Figure:** 0.60% |
| | **Transaction Cost ex Ante:** 0.13% |

## Fund Opinion

This is a solid strategic bond fund, run by an experienced team of investors, which will tend to be relatively defensive. The investment process is both thorough and well applied, with a strong focus on risk at both the individual security and portfolio level, and should result in a diversified portfolio with varied sources of returns. Correlation to any one part of the market should be low and drawdowns should be limited. Historically this has indeed been the case, and other than some minor volatility, the returns profile has been remarkably smooth and, we believe should appeal to the more risk aware investor. The fund is looking to achieve annualised returns of cash plus 2.5% per annum and so investors should not expect this fund to shoot the lights out in any given year. Equally, however, the risk aware manner in which it is run, with diversified sources of risk and return and a focus on avoiding drawdowns, should mean that it is unlikely investors will receive nasty surprises either.

As well as two thoughtful and experienced lead managers, this fund also has access to the very substantial resources of the broader fixed income and macroeconomic teams at JP Morgan - over 270 sector specialists - a resource which should not be underestimated. It is the skilful use of this vast knowledge bank by the managers which really sets the fund apart.

## Fund Description

The fund is managed using a team approach, with the designated lead managers Bob Michele, Global Chief Investment Officer of the Global Fixed Income, Currencies and Commodities group (GFICC) and Iain Stealey, International Chief Investment Officer of the GFICC. Mr Michele and Mr Stealey are experienced managers and are supported by the broader resources available at JP Morgan. JP Morgan Asset Management is a large, global asset manager using a team-based approach to invest across all asset markets and geographies. In July 2020, JPM announced the addition of four lead sector specialists (Investment Grade Corporate, Securitised, High Yield and Emerging Market Debt) to the portfolio management team. This is not a reflection of a change in process or an indication of an upcoming retirement, instead it is a recognition of the importance of the bottom up security selection process and of the newly appointed portfolio managers' contributions. The emerging market debt manager has since left the business and the number of named portfolio managers on the fund has reduced to five.

The fund is designed to bridge the gap between perception and reality in bond markets, namely the perception that bonds are safe investments, but the reality that they can be volatile. The aim is thus to design a portfolio which will deliver bond-like returns on the upside, but, through active asset allocation and management of interest rate and credit risk, to limit volatility and protect capital on the downside. The fund has the ability to invest across fixed income markets, allowing the managers to bring together their best ideas from the government, investment grade, sub-investment grade, emerging market and securitised areas. Risk factors are actively managed, using derivatives where appropriate.

The investment process combines top-down macroeconomic analysis with detailed bottom-up research. The team begins the process with broad macroeconomic discussions, the output of which is a heat map, where each fixed income sector is assigned a score depending on how the team thinks it is likely to perform going forward. These scores are awarded with a 3-month time horizon in mind. The final portfolio is invested with a longer time horizon of 3-5 years, but individual positions are taken with shorter time frames in order to control downside risk. This heat map forms the basis for the managers' asset allocation decisions. Once asset allocation has been decided, the team turns its attention to security selection. The specialist allocations within the portfolio, such as sub-investment grade bonds, are outsourced to the relevant specialist teams, whilst the more mainstream allocations, such as developed market government bonds, are managed by Mr Stealey and his team in London. However, all security selection decisions follow the same process. This is a relatively concentrated best ideas fund and is not invested with reference to a benchmark. Position sizes are determined by the team's conviction levels, but also the volatility of each strategy, both on a discrete basis and given its correlation with the rest of the portfolio. Risk is an important part of the process and the managers run various risk tests to ensure that the final portfolio will perform as they expect it to in different market environments. The process should result in a diversified portfolio with varied sources of return. Correlation to any one part of the fixed income or equity market should be low and drawdowns should be limited.

The fund can invest across developed and emerging market government bonds, investment grade and sub-investment grade corporate bonds and cash, and may also use derivatives both for hedging and investment purposes. At least 80% of the fund must be invested in instruments which are issued in, or whose currency exposure is hedged back to, sterling.

## Risk Summary

This fund's managers invest in fixed income instruments and the main sources of risk are likely to be interest rate risk and credit risk. In the main, we believe that the managers' careful approach should help to mitigate these risks through active asset allocation and hedging where appropriate. However, investors should be aware that these risks are likely to be significant when the managers believe that they are being rewarded to take them on.

The fund can be invested globally, including in bonds issued by emerging market governments or companies and investors should be aware that the emerging markets often have less stable political regimes than their developed market counterparts. JP Morgan has considerable expertise in analysing such regions, but we would note that emerging market debt tends to be more volatile than that issued in developed markets.

In terms of credit quality, the fund can invest in both investment grade and sub-investment grade credit. JP Morgan has a large team of credit analysts who assess the ability of companies to pay back their debt, and the managers will only invest in bonds on which the team has undertaken extensive analysis. Nevertheless, investors should be aware that it is possible that a bond in the fund could default on its obligations. Though, as the fund is well diversified, the impact of any one bond defaulting should be small.

This is a diversified fund and no one source of risk should ever dominate. Thus, whilst there are a variety of risks in the fund, they are unlikely to all be moving against the fund at the same time. Whilst it is never possible, or indeed desirable, to eliminate risks entirely in a fund such as this, we believe that the managers' careful approach to both research and portfolio construction mean that the risks inherent in the fund are well managed.

## Value for Money

The total cost of investment (TCI) for the clean share class of this fund is one of the lowest of the peer group. Whilst this is a relatively simple bond fund compared to a broad peer group with differing objectives and we would therefore expect the cost of it to be below the median, we believe that the fund represents good value for money. It gives investors access to a clear philosophy and process, as well as the extensive resources at JP Morgan, for a good price.

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. JP Morgan Asset Management absorbs the costs associated with their research, which should slightly reduce the overall fee paid by investors.

TCI v Peer Group

0.73%

OCF v Peer Group

0.60%

Transaction Costs v Peer Group

0.13%

## ESG Integration

| | | | | |
|---|---|---|---|---|
| **Company Assessment** | 0 | 1 | **2** | 3 |
| ESG factors are considered formally but are not instrumental within all of the company's investment processes. | | | | |
| **UN PRI Strategy & Governance Rating** | A+ | | | |
| **Fund Assessment** | 0 | 1 | **2** | 3 |
| ESG factors are actively considered by the fund's manager as an important part of the investment process, but do not drive the final investment decision. | | | | |

## Responsible Investing Approach

| **Exclusion** | **Responsible Practices** | **Sustainability** | **Impact** |
|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ |

## Additional Information

| | |
|---|---|
| **Annualised Return** | 3.16% |
| **Annualised Volatility** | 3.93% |
| **Max Drawdown** | -6.68% |
| **Max Gain** | 3.88% |
| **Max Loss** | -6.68% |
| **Sharpe Ratio** | 0.66 |
| **Sortino Ratio** | 0.52 |

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

**Currency of Share Class**

GBP

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

102.6 pence

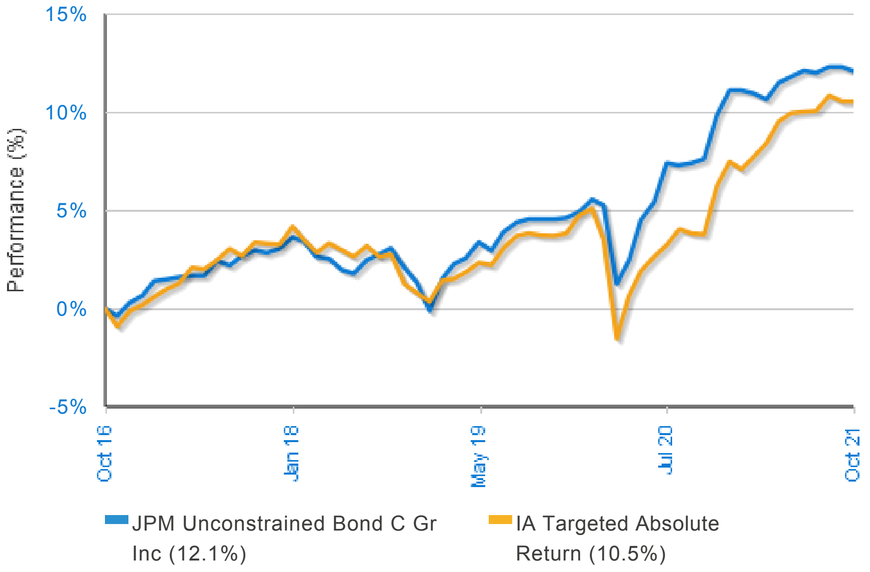
**Benchmark**

ICE Overnight GBP LIBOR

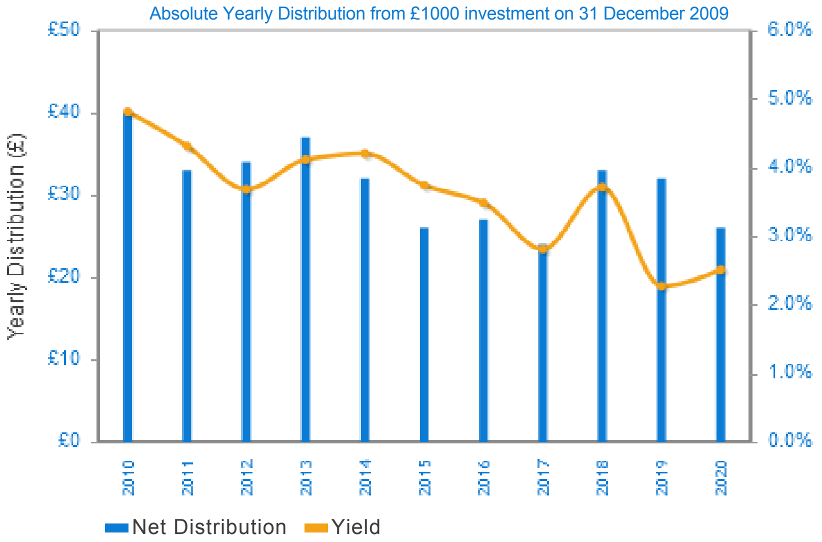
## Discrete Annual Performance to Last Quarter End

| Period | Fund (%) | Sector (%) | Quartile Ranking |
|---|---|---|---|
| 0-12m | 4.6 | 6.5 | 3 |
| 12-24m | 2.7 | 0.1 | 2 |
| 24-36m | 1.4 | 0.9 | 2 |
| 36-48m | 0.4 | 0.1 | 3 |
| 48-60m | 2.2 | 3.2 | 3 |

## Capital Growth

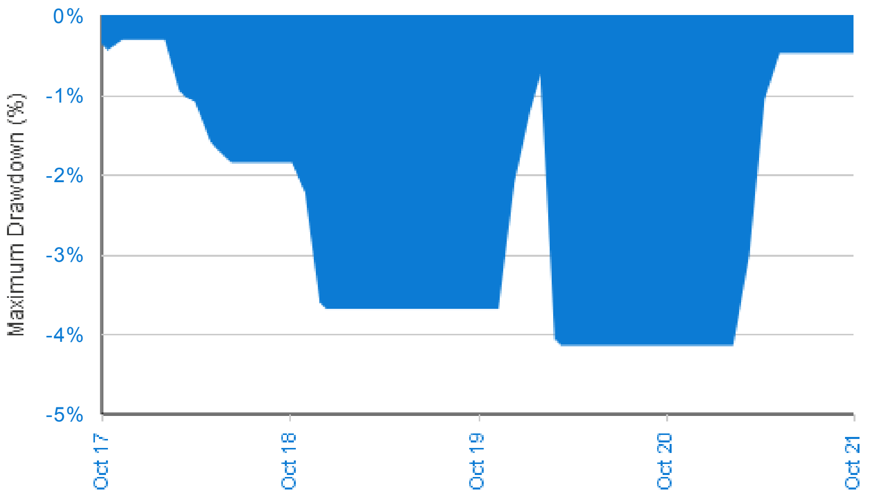


## Income



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 30 Sep 2021)

| Name | % |
|---|---|
| AAA | 26.6 |
| AA | 2.4 |
| A | 10.2 |
| BBB | 52.5 |
| Cash | 2.6 |
| Non-Rated / Others | 5.7 |

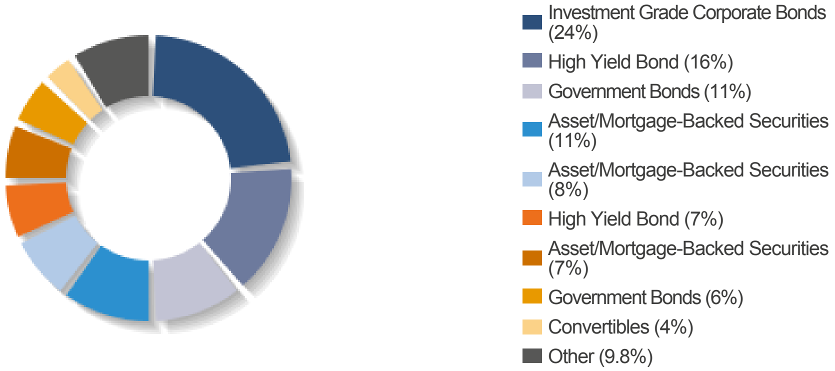
## Top Ten Holdings

(Data as at 30 Sep 2021)

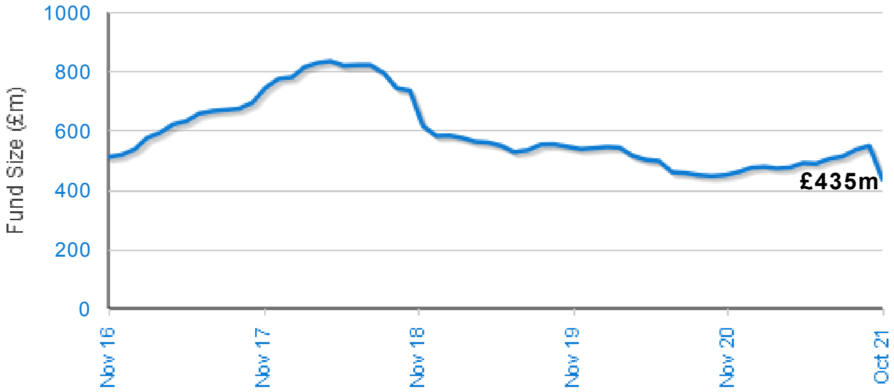
| Company Name | % |
|---|---|
| CANADA(GOVT OF) 0.25% BDS 01/08/23 CAD1000 | 2.5 |
| CANADA(GOVT OF) 1.5% BDS 01/06/23 CAD1000 | 2.5 |
| AUSTRALIA(COMMONWEALTH OF) 5.5% TB 21/04/23 AUD100 (CDI) | 1.8 |
| GNMA 3.000% 20/09/51 | 1.5 |
| ITALY(REPUBLIC OF) 0.6% BDS 15/06/23 EUR1000 | 1.5 |
| GOVERNMENT OF ITALY 0.000% 15/01/24 | 1.1 |
| CAPITAL ONE 0.660% 15/07/27 | 0.9 |
| ITALY(REPUBLIC OF) 0.95% BDS 15/09/27 EUR1000 | 0.7 |
| FNMA 3.670% 25/09/28 | 0.6 |
| ITALY(REPUBLIC OF) 0.25% BDS 15/03/28 EUR1000 | 0.6 |

## Sector Breakdown

(Data as at 30 Sep 2021)



## 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 fixed interest markets, although the managers may take steps to hedge some of the interest rate risk in the fund. The fund price may fall if interest rates climb more rapidly than expected.

**Credit Risk**
The fund can take exposure to both investment grade and sub-investment grade credit. Credit defaults and 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 managers intend 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 has the ability to invest in securities issued by governments or companies in emerging markets.

**Derivative Risk**
The fund uses 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 managers intends.

**Manager Risk**
The managers are seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile would reappraise the rating if the lead manager were to leave.

FE Risk Rating: 19.00

SRRI: 3

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