

Threadneedle High Yield Bond ZNI GBP

November 2021
Investment Research



Overview

The managers aim to produce a high level of yield that is consistent with maintaining capital over the long term. Income is generated through the coupons paid by the bonds in which the fund invests. These bonds are sub-investment grade in rating, but the managers carry out extensive work in an attempt to ensure that the companies in which they invest will be able to continue to meet these payments. The level of income, however, is not guaranteed and may fluctuate depending on the prevailing market environment. Distributed income is currently low relative to its history, reflecting the low interest rate environment in which we live.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
		●	

Square Mile Expected Outcome

We believe outperforming the ICE BoA Euro Ccy High Yield ex Subordinated Financials constrained index (hedged to GBP) over rolling three year periods, net of fees, is a fair expectation for this fund.

Active/Passive: Active	Domicile: United Kingdom
Asset Class: Fixed Income	IA Sector: IA Sterling High Yield
Launch Date: 04/10/1999	Fund Size (as at 31 Oct 2021): £959.3m
Yield: 3.54%	Distribution Pay Date: Monthly
Fund Manager: David Backhouse , Roman Gaiser	Ongoing Charge Figure: 0.73%
	Transaction Cost ex Ante: 0.15%



Fund Opinion

This fund is run by an experienced management team who have proven themselves capable of managing sub-investment grade bonds over various market conditions. There tends to be a focus on avoiding capital loss over the longer term, a focus which we think is sensible in a market that naturally carries more risk than many other parts of the fixed income universe. That said, the managers have still generated a relatively high and stable level of income over most of the fund's life. The fund underwent a change of management personnel at the end of 2019, however this was managed well and we believe the team of high yield investors at Columbia Threadneedle remains impressive, in particular Mr Gaiser and Mr Backhouse who are at the helm of this fund.

High Yield indices have historically proved difficult for investment funds to outperform given many of the bonds are held privately thus preventing collective funds accessing attractive coupons. The fund's modest rate of index underperformance over time does therefore not cause us concern. The fund is likely to be more defensive than its benchmark, tending to lag when European sub-investment grade debt is rallying strongly and to outperform when the market is falling. Investors should be aware that European sub-investment grade debt, being a smaller and younger market than its transatlantic equivalent, can be somewhat more affected by waning investor confidence than the US market. Conversely, the European market is of slightly higher credit quality than the US. The fund is likely to be suitable for investors looking for a relatively high yield, and who are prepared to accept a degree of capital volatility in order to achieve it.

We like the careful credit analysis which the team undertake, and the focus on avoiding losses. This approach should lead to a "safety-first" mentality, which we believe can be an attractive feature when investing in a lower quality asset class such as sub-investment grade credit.

Fund Description

The fund is managed by Roman Gaiser and David Backhouse. Mr Gaiser is Head of Fixed Income and High Yield, EMEA at Columbia Threadneedle and has over 25 years experience, most recently as Head of High Yield at Pictet Asset Management between 2011 and 2018. He rejoined Columbia Threadneedle in 2018 having previously been a high yield portfolio manager from 2005 to 2011 in the team that he now leads. Mr Backhouse is also a very experienced and competent investor, having joined Columbia Threadneedle Investments in 2003 and then progressing up through the ranks from investment analyst to becoming a named manager on this fund in 2012. In addition, the managers can draw upon a large team of credit analysts, as well as the wider resources at Columbia Threadneedle, including their equity colleagues. Columbia Threadneedle is a large global asset management group that provides a wide range of actively managed investment strategies to clients around the world.

Columbia Threadneedle believe that markets are inefficient and that investors can take advantage of this through active management. The fund's investment process combines top-down and bottom-up research to identify the best and most repeatable risk-adjusted return opportunities. Furthermore, the managers believe that risks in this market are asymmetric, with greater potential downside risk than upside gain, and there is therefore a focus on limiting downside risk as much as possible in the fund. Teamwork is fundamental to the process, with analysts encouraged to share ideas about economies, markets and stocks with their colleagues both in the team and across the rest of the organisation.

While the process incorporates top-down economic analysis, it is primarily focused on stock-specific bottom-up research. The top-down work is used to determine broad risk factors, and the portfolio is then populated using ideas identified through rigorous security analysis. Analysts are split by sector, with each individual analyst responsible for their sectors. The research carried out combines quantitative and qualitative elements, to result in an investment opinion, taking into account both the risk and potential returns of each bond. The analysis examines factors which the team believe will impact the creditworthiness of a company, including business analysis (management and industry dynamics), financial analysis (focusing on a company's ability to generate future earnings), company valuation and capital structure evaluation (looking at security specific features, including covenants). The output of this work is a research report, along with an analyst's investment recommendation. It is then the managers' responsibility to interpret these recommendations, with input from the team, to construct the final portfolio.

The result of the process should be a diversified portfolio of predominantly sub-investment grade European bonds, with the managers looking to add value through stock selection, sector allocation and credit quality allocation. The managers do not look to add returns through interest rate risk or currency management. All currency exposure is hedged.

Risk Summary

This fund invests in lower quality (sub-investment grade) fixed income instruments. The overriding risk present in the fund is therefore likely to be credit risk, as, if default rates increase it is likely to have an adverse impact on the fund. The managers look to mitigate this risk through careful research and analysis of the underlying companies in which they invest. Investors should be aware, however, that such risk will always be present in the fund. Whilst Columbia Threadneedle have an extensive and very able team of credit analysts, there is always the possibility that a company whose bonds are held in the portfolio could default on their debt. The fund is well diversified and the impact of any individual bond defaulting should thus be small.

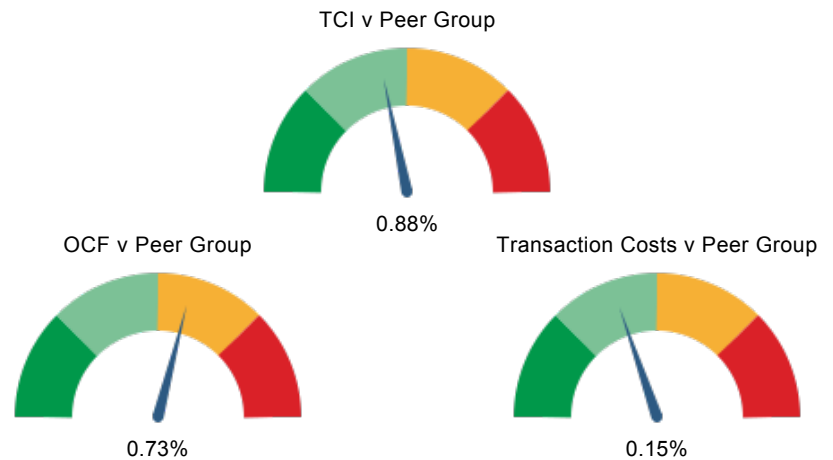
In addition, investors should be aware that sub-investment grade credit can be one of the more volatile parts of the fixed income asset class. Whilst the return profile of this fund is a little more defensive than the overall market, this is only in a relative sense and at times the absolute volatility of the fund could be substantial.

Ultimately we believe that the managers are capable of balancing risk with return in a manner so as to deliver good outcomes for investors.

Value for Money

The fund's ongoing charge figure (OCF) is close to the median for the peer group. Trading costs have been relatively low as the managers are often able to buy and sell bonds without the use of brokers. The fund's total cost of investment (TCI) is beneath the median for the peer group, which we believe represents very good value for money given the high calibre of the management team and the extensive credit research team, both in the London and the US, to which the managers have access.

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. As a result, Columbia Threadneedle have absorbed the costs associated with their research, which has slightly reduced the overall fee paid by investors. This step is at the discretion of each fund group, but has proved popular across the industry.



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 available to the fund managers as an input to their analysis, but they are not compelled to consider them as a factor when making investment decisions				

Responsible Investing Approach

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

Additional Information

Annualised Return	4.89%
Annualised Volatility	9.88%
Max Drawdown	-19.97%
Max Gain	15.44%
Max Loss	-19.97%
Sharpe Ratio	0.43
Sortino Ratio	0.35

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

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

104.1 pence

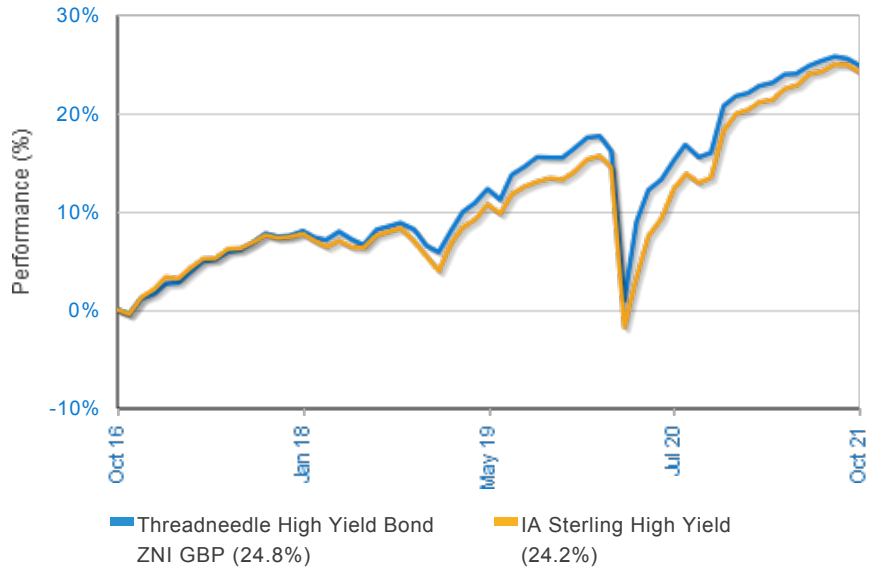
Benchmark

ICE BofA ML European Currency High Yield Constrained Index (hedged to GBP)

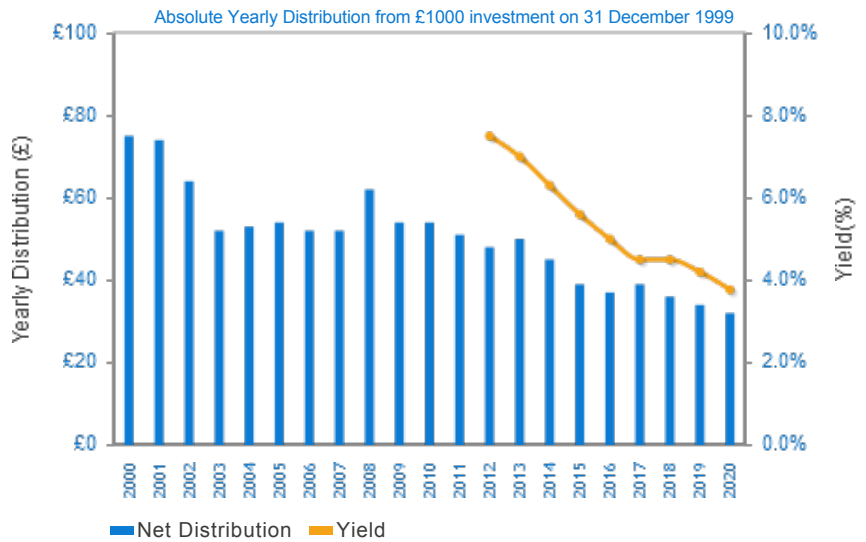
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	8.7	10.6	3
12-24m	0.0	-0.4	3
24-36m	6.1	4.7	2
36-48m	1.9	1.4	1
48-60m	7.3	7.4	3

Capital Growth



Income



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

Credit Rating (Data as at 30 Sep 2021)

Name	%
BBB	2.9
BB	57.3
B	30.3
Cash	4.3
Non-Rated / Others	0.5

Bond Maturity

(Data as at 30 Sep 2021)

Name	%
Cash & Floating Rate Notes	8.4
1-3 Years	21.4
3-5 Years	45.8
5-15 Years	23.5
15+ Years	0.9

Asset Allocation Positioning

Name	%
Global High Yield Fixed Interest	95.7
Money Market	4.3

(Data as at 30 Sep 2021)

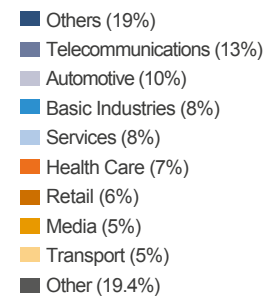
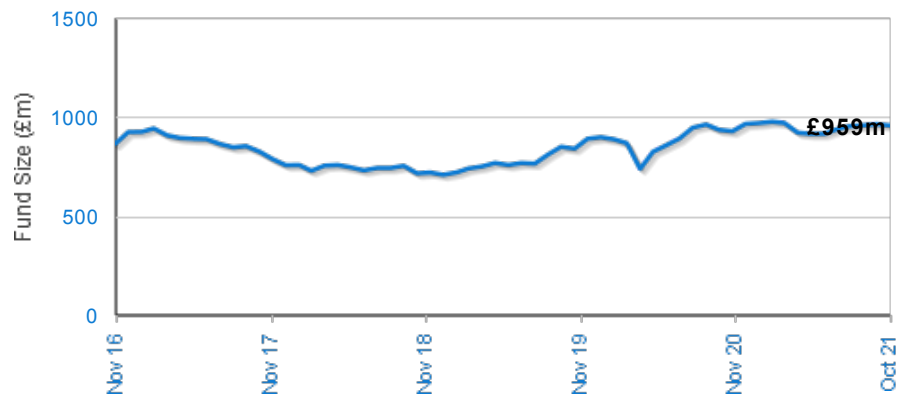
Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
EDF	25
GNMA2 30YR TBA(REG C) 3 05/23/2016	23
AUTOSTRADA PER L'ITALIA S.P.A.	21
TELEFONICA EUROPE BV	21
NETFLIX INC	20
VODAFONE GROUP	19
TELECOM ITALIA SPA(NEW)	15
DEUTSCHE LUFTHANSA AG	14
PETROLEOS MEXICANOS	13
IQVIA HLDGS INC	12

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 lower quality fixed interest markets. Rising interest rates are a risk, though the impact is likely to be limited.

Credit Risk

The fund has significant exposure to high yield debt rated below investment grade. 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 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 as part of its efficient portfolio management. These instruments are used by the manager to manage and mitigate the risks and exposures within the fund. These can be complex and investors should be aware that there is a chance that they could not behave in the manner that the manager intends. The use of derivatives may also increase the counterparty risks in the fund.

Manager Risk

The managers are seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to reappraise the rating if the managers were to leave.

FE Risk Rating: 45.00

SRRI: 4

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