

Legal & General Active Global High Yield Bond

Opinion

- This Recommended fund benefits from an experienced high yield team. LGIM has built a well-resourced high yield franchise.
- There is a clear and disciplined investment philosophy and process that harnesses the firm's macro views and the team's in-depth credit analysis.
- We believe the team's assessment of the overall attractiveness of global high yield as an asset class helps the team to calibrate the level of aggregate risk in the fund.
- This is one of the larger funds in the IA peer group but is commensurately diverse by issuer and underlying market.

Characteristics and Utility

- The fund offers pure exposure to global high yield bonds and can be used to gain broad exposure to the asset class. The inclusion of emerging market credits differentiates it from many peers.
- The team's macro-economic conclusions and the manager's overall risk preferences are important drivers of relative performance.
- The valuation framework should help the fund exhibit resilience during market crises, whilst allowing the team to look through short-term periods of volatility when they believe they are being suitably compensated for the investment risk.
- Of note is that the IA sector incorporates a variety of mandate types that can deliver different risk/return outcomes. This fund is marked out by its geographical diversification and is less exposed to the US market than global indices.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

Our analysis indicates that the fund is in the lower end of the 10-15% range. The manager took over responsibility for the fund in November 2024. The previous manager's investment approach resulted in periods of higher volatility than the benchmark and peers in aggregate. Going forward, we would expect the reasonably diversified nature of the portfolio combined with the manager's focus on risk to produce a volatility outcome that is in keeping with the asset class. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	01 November 2000
Manager(s) Since:	John Ryan (Nov 24)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	ICE BofA BB-B Global High Yield Non-Financial 2% Constrained Total Return Index (Hedged to GBP)
IA Sector:	£ High Yield

Note: On 5 January 2022 the name of the fund was changed from Legal & General High Income Trust.

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A flexibly-managed, global high yield bond fund that can include emerging market high yield bonds. The team's view of the macro backdrop sets the framework for the fund's aggregate credit risk profile and guides bottom-up credit selection. Within its sector, the fund features in our 'Global High Yield, Flexible' category.

Investment Team

John Ryan is Head of Global High Yield at Legal & General Investment Management (LGIM) and lead portfolio manager on LGIM's European High Yield and Developed Markets ESG High Yield strategies. He works closely with the regional High Yield portfolio managers, Elizabeth Cassidy (US), Peter Duff (emerging markets) and Global High Yield portfolio manager, Carl Sells. They benefit from LGIM's well-resourced and experienced global fixed income team, which includes top-down investment strategists, an extensive global network of credit analysts and government bond specialists.

Investment Philosophy

The team seeks to generate attractive risk-adjusted returns through a diversified portfolio of global high yield bonds. In pursuing this objective, the team has a flexible approach, but they are guided by a strong macro structure and a robust valuation framework. They look to generate a level of income that is aligned to their assessment of prevailing market risk.

Investment Process

The investment process incorporates a combination of macro-economic analysis, credit analysis and valuation assessment. This fits with the fixed income team's philosophy of understanding the effect of the broad environment on different fixed income markets, with a view to informing the asset allocation preferences and risk positioning for their funds. LGIM's economists and market strategists seek to balance long-term macro themes with shorter-term cyclical considerations and these are set out in a monthly economic "roadmap". This is formally presented to the entire active fixed income team on a monthly basis and, following debate, the asset allocation preferences are determined. These views are set out in a monthly credit scorecard outlining where the group sees attractive opportunities within the global fixed income market.

The conclusions from the scorecard provide a framework for portfolio construction, particularly in respect of how and where the managers express risk in the fund. They work closely with the high yield credit analysts who filter the investment universe and look for securities that are consistent with the team's top-down views. They emphasise valuation and assess the probability of default of each security of potential interest. Analysts forecast the issuer's credit metrics and establish a range of outcomes (upside and downside) around their base case assumptions. In constructing the portfolio, they favour a "barbell" approach, creating a defensive core of lower yield, more resilient names alongside higher spread names in which they have conviction.

Portfolio Construction and Risk Controls

The fund invests in global high yield corporate bonds that are BB and B rated, with non-sterling exposures hedged back to sterling. The mandate excludes the purchase of financial bonds and companies rated CCC by two ratings agencies, although should a bond be downgraded, it is not an automatic sell. Duration is usually within one year of the index.

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