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advisercentre research

abrdn High Yield Bond

Opinion

- This Recommended fund benefits from an experienced high yield practitioner who leads a close-knit team of specialists.
- The approach emphasises company research and the team works collegiately, taking collective responsibility for the outcome of the credit work.
- Their assessment of the overall attractiveness of high yield as an asset class is beneficial in helping them calibrate the level of credit risk to take in the portfolio.

Characteristics and Utility

- The long-term nature of the company-specific approach means the team is willing to tolerate price volatility when they believe their long-term analysis to be accurate.
- Nonetheless, whilst being willing to take on risk when they are paid to do so, they seek to moderate overall portfolio risk when they believe aggregate valuations to be elevated.
- 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 focus on pan-European high yield and has little or no exposure to the US market, which makes up a large proportion of global indices.
- The fund is suitable for investors seeking a pan-European high yield bond offering that blends detailed company-level research with an awareness of broader sector and market risks.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 4. 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 4 means the fund's historic volatility is between 5% and 10%.

The fund's risk score is in keeping with the sector. Mainstream fixed income benchmarks and IA fixed income sectors are shifting to higher scores because of the increased volatility that has been registered by markets, based upon 5 years of standard deviation data. Different share classes could have differing SRRI scores.

LOWER RISK (Typically lower rewards) **HIGHER RISK** (Typically higher rewards)

1 2 3 **4** 5 6 7

Key Fund Facts

Inception Date:	7 February 2000
Manager(s) Since:	Steve Logan (Nov 24)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	ICE BofA GBP/Euro Fxd & Fltng High Yield Non Financial 3% Constrained (Hdgd to GBP)
IA Sector:	£ High Yield

In March 2023, abrdn European High Yield Bond was merged into this fund. Previously, we featured abrdn European High Yield Bond in our service.

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

The fund invests primarily in pan-European high yield bonds using a bottom-up driven investment approach. The team seeks to exploit inefficiencies in the pricing of credit in relation to company fundamentals, taking a long-term approach to this analysis. Within its sector, the fund features in our 'Primarily Pan-European High Yield, Flexible' category.

Investment Team

Steve Logan is the lead manager and Paul Metha is the co-manager. They are members of abrdn's European High Yield team. Mr Logan is Head of the European High Yield and Global Loans team. He has over 30 years' credit investment and leadership experience, including at abrdn and its predecessor companies between 2001 and 2020. The team is part of the firm's large global fixed income capability, incorporating a wide range of specialisms and based in offices across the UK, the US and Asia.

Investment Philosophy

The team believes that company fundamentals ultimately drive the credit premium attached to high yield bonds. At the same time, they believe that the market is not efficient at pricing these fundamentals, particularly when they are undergoing material change. Their aim is to exploit this inefficiency, recognising that the market's focus upon fundamentals ebbs and flows during various stages of the investment cycle.

Investment Process

The investment process is based around detailed bottom-up analysis and ongoing monitoring of the creditworthiness of each issuer. The team's fundamental views are formulated around three broad areas – idiosyncratic risk, cyclical/sector themes, and systemic risk. In the case of idiosyncratic risk, the team assesses a company's balance sheet and profitability and judges the impact of any change that might alter its creditworthiness. In terms of cyclical/sector themes, they analyse how well positioned or exposed a company is to industry dynamics when compared to peers. Finally, an assessment of systemic risk highlights where a company would be affected by broader-based themes, such as regulatory or rating agency changes. In the process of collating its research, the team meets companies, conducts cash-flow and credit analysis, reviews bond covenant protections and collaborates with equity colleagues with regard to company and sector views.

The culmination of this work is a final recommendation for each company, incorporating a fundamental credit assessment, a fundamental credit trend, an ESG risk rating and a relative value judgement. The team regards this as a dynamic process and their work is kept up to date according to changing information. To help them assess changes to the credit landscape, they monitor credit valuations, the impact of market demand/supply and the impact of government/regulatory influences. Using this information, the portfolio is built from the bottom up, with the team paying close attention to valuation compared to the risk taken.

Portfolio Construction and Risk Controls

At least 80% of the fund is invested in high yield bonds issued across the UK and Europe and the minimum average credit rating of the portfolio is B-. Overseas currency exposure is hedged to sterling. The portfolio typically features 120-180 securities. Up to 10% can be in unrated bonds. The maximum permitted allocation to cash is 10%. Derivatives are used primarily for the purposes of efficient portfolio management.