

SHINING A LIGHT ON THE.....
Premier Miton Strategic Monthly Income Bond Fund

AT A GLANCE

| Investment Objective |
|--|
| The objective of the Fund is to provide income, together with the potential for capital growth over the long-term, being five years or more. Five years is also the minimum recommended period for holding shares in this Fund. This does not mean that the Fund will achieve the objective over this, or any other, specific time period and there is a risk of loss to the original capital invested. The Investment Adviser aims to achieve the objective of the Fund by investing in a diversified portfolio of fixed, variable and zero interest rate investments, including bonds issued by governments and companies. The Fund will invest at least 70% in these investments (although no more than 5% will be invested in zero interest rate investments). |

| | |
|----------------------------|---|
| Inception Date | 14 th September 2020 |
| Fund Factsheet Link | https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000015HZT |

| Management | |
|---------------------|---------------------------------|
| Manager Name | Start Date |
| Lloyd Harris | 14 th September 2020 |
| Simon Prior | 14 th September 2020 |

FUND PERFORMANCE

Performance from 21st June 2018 to 31st October 2021 (based on Quilters Investors Divers Bond):

| | 2018 | 2019 | 2020 | 2021 |
|---|--------|--------|--------|-------|
| Premier Miton Strategic Monthly Income Bond Fund | -1.68% | 15.48% | 10.45% | 1.54% |
| IA Sterling Strategic Bond | -1.38% | 9.23% | 6.08% | 0.69% |

Performance over 12 months, 3 years, 5 years and since launch:

| | 1 year | 3 years | Since launch |
|---|--------|------------|--------------|
| Premier Miton Strategic Monthly Income Bond Fund | 5.55% | 8.55% p.a. | 7.45% p.a. |
| IA Sterling Strategic Bond | 4.25% | 4.96% p.a. | 4.26% p.a. |

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

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| Tracking Error | Upside Capture Ratio | Downside Capture Ratio | Batting Average | Beta | Alpha | Credit Quality |
|----------------|----------------------|------------------------|-----------------|------|-------|----------------|
| 3.54 | 67.50 | 87.14 | 33.33 | 0.87 | -3.48 | - |

| Volatility Measurements | |
|----------------------------|-------|
| 3-Yr Std Dev (volatility) | 7.00% |
| 3-Yr Mean Return (average) | 8.55% |

| Credit Quality | |
|----------------|---|
| AAA | - |
| AA | - |
| A | - |
| BBB | - |
| BB | - |
| B | - |
| Below B | - |
| Not Rated | - |

| Top 5 Holdings | | |
|---|---|-------|
| United States Treasury Notes 0.125% | - | 6.60% |
| Provident Financial PLC 8.875% | - | 1.88% |
| Admiral Group 5.5% | - | 1.79% |
| Old Mutual Wealth Life Assurance Ltd 4.478% | - | 1.75% |
| Athene Global Funding 1.875% | - | 1.60% |

| Fixed Income | |
|--------------------|---|
| Effective Maturity | - |
| Effective Duration | - |

UPDATE....

This was our first introduction to the strategy. In terms of the performance, we have used Quilters as this is the same strategy that they run under a segmented mandate. The team came from Merian and brought across the Head of Fixed Income Dealing and Head of Investment Operations to ensure the team stayed together. They have added a credit specialist to the team. We talked about the macro position and then focused in on the Monthly Income Bond Fund.

They believe that demographics are a big driver of the bond markets. As people get older, they accumulate more assets and naturally they buy more bonds. As evidence of this they used the correlation between the US labour market growth and US 5-year yield which showed a rate of 82%, and the Bank of England speech 'running out of room' which shows the greatest accumulation really starts from 50 up to 69 when it starts to drop back.

As populations get older it is harder to generate growth and therefore debt is the means to generate that growth, as we have seen with the current debt levels. What this means is that it is harder for central banks to raise rates and the peak levels will be lower than we have seen in past. Where growth is above inflation then rates can go up, but once growth drops below inflation then it creates a problem, as we saw in 2018.

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In the short term there are other challenges. The supply of labour is a global issue. It feels like the central banks have given too much away and consumers are spending more. Wages are therefore being pushed up and it will take more time than many think for inflation to settle. This means it is a dangerous period for central banks. They need to rein back but they also need the growth, and treading that balance is difficult.

Some argue that in this environment bonds can no longer operate effectively as a diversifier to equities, but the team argue differently. This is a highly active strategy that looks to invest purely in quality credit where they see price inefficiencies. This means as soon as the bond reaches fair value they sell. This can mean they hold for hours, days, or more. It is the small incremental profits that deliver the overall growth for the strategy.

The strategy has a duration of 3 years, which can be + / - 3% so can fluctuate between 0% and 6%. It looks to invest across investment grade, high yield, and government bonds. Although it targets a monthly income, most investors use the accumulation share class which means the income goes towards the growth.

Unlike other strategic bond funds, the key is being disciplined and keeping it simple. They only invest in high quality companies, and because they are active, they don't believe they have to make big strategic bets. As an example, although they have 26% in high yield, around 16% of this is in investment grade issuers.

With the level of turnover, my concern was whether they can keep up with this level of intensity. They explained this a team effort and although there is a busyness everyone has a part to play. Every day they meet and are constantly looking for those mispriced opportunities. If they buy something and the value discount grows then they test the thesis, and this may mean buying more, holding or selling. If they make a mistake then they will do a post-mortem as to what might have gone wrong.

This doesn't target a return, but they believe with the backdrop this can deliver 5% to 7% p.a. on average (growth and income). Certainly over 12 months, three years, and since launch they have done this.

We talked about if interest rates rise and they think this could reduce the returns to around 4% to 6%, but it is important to reflect that rates are unlikely to rise fast and levels will be much lower than has been seen in the past.

In summary, the macro story is interesting. Effectively in the short-term inflation will reflect supply / demand and therefore it will naturally be higher. Longer term demographics play a massive part of bond yields, and an aging population means there will be a demand for bonds. In terms of what they are doing, although they are active from an investor viewpoint, this is not a complex strategy. It focuses purely on the developed market, it is effectively a value strategy but only investing in quality bonds and looking to make incremental gains. Once these are made the team sell and move onto the next investment.

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It is also important to understand that, unlike other strategies, this is not a macro play. They are not trying to bet on the market and they don't believe they have to take big risks. Everything is about identifying mispriced opportunities and capitalising on this. As a result, this has been able to deliver consistent performance since launch. We would normally be concerned with a change in fund management house but with the whole team coming across this effectively means they have just moved home.

We would be happy to add this to our watchlist.

The source of information in this note has been provided by Premier Miton and is correct as at November 2021. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this, and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.