

**SHINING A LIGHT ON THE.....
Allianz Strategic Bond Fund**

AT A GLANCE

Investment Objective
To The objective of the Fund is to maximise total return, consistent with preservation of capital and prudent investment management, primarily through investment directly in debt securities issued by corporate, government, supranational institutions and local regional agencies or by gaining exposure indirectly through the use of derivatives, as well as any other security. The Fund will invest internationally although at least 80 % of its assets shall be invested in Sterling denominated (or hedged back to Sterling) debt securities. The ACD aims to achieve the investment objective by investing (directly or indirectly) in treasury bills, certificates of deposit, medium term notes, private placements, structured notes, preference shares, convertible bonds, gilts, investment grade and below investment grade bonds, bonds of emerging markets issuers, agency bonds and asset or mortgage backed securities or floating rate notes.

Fund Factsheet Link
https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000013G37

Management	
Manager Name	Start Date
Mike Riddell	30 th November 2015
Joe Pak	1 st November 2011
Ravin Seeneevassen	1 st November 2011

FUND PERFORMANCE

Performance from 1st January 2016 to 28th February 2022:

	2016	2017	2018	2019	2020	2021	2022
Allianz Strategic Bond Fund	4.26%	0.74%	1.93%	10.43%	30.17%	-8.51%	-2.89%
Bloomberg Global Aggregate TR Hdg GBP	3.66%	1.93%	0.10%	6.46%	4.96%	-1.54%	-2.87%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	3 years	5 years	Since fund manager inception
Allianz Strategic Bond Fund	-8.09%	23.38%	30.11%	35.19%
Bloomberg Global Aggregate TR Hdg GBP	-2.33%	5.96%	8.63%	12.68%

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
7.15	167.63	28.69	52.78	0.84	6.82	Medium

Volatility Measurements	
3-Yr Std Dev (volatility)	7.78%
3-Yr Mean Return (average)	7.25%

Credit Quality	
AAA	80.48%
AA	-18.15%
A	27.55%
BBB	-6.30%
BB	9.25%
B	1.70%
Below B	0.34%
Not Rated	5.14%

Top 5 Holdings – 224 bond holdings, 323 other holdings		
2 Year Treasury Note Future Mar 22	-	24.19%
5 Year Treasury Note Future Mar 22	-	13.19%
Korea 3 Year Bond Future Mar 22	-	4.45%
South Africa (Republic of) 8%	-	2.77%
France (Republic Of) 0.25%	-	2.75%

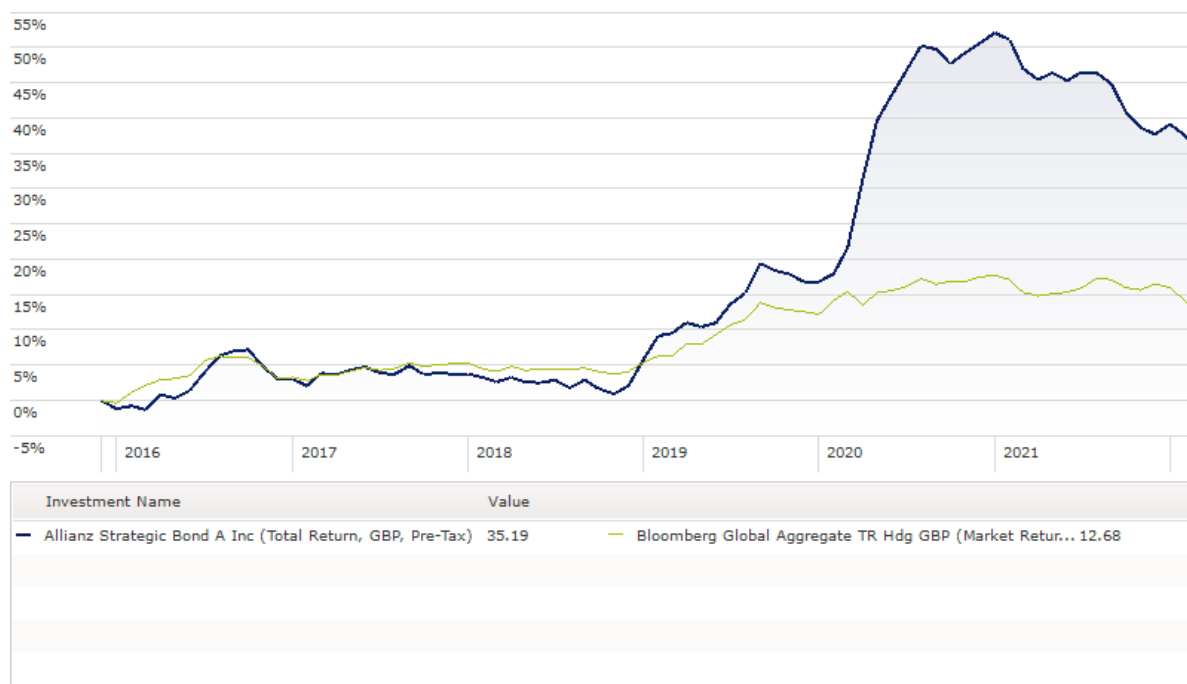
Fixed Income	
Effective Maturity	4.94
Effective Duration	6.12

UPDATE....

We have only recently reviewed this strategy. To illustrate our concerns, I have shown below the performance chart since the manager took this over up to 28 February 2022. This really shows how the fund tracked the index and then made a strong “macro call” in 2020, and since then has drifted. Although it has outperformed the gap is starting to narrow.

It is worth adding that year to date (up to 23 March), the fund is down -6.71% so it has continued downward this year.

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The strategy runs along three lines:

1. To outperform the benchmark
2. To be uncorrelated to equities
3. To make more money when they get things right than when they lose money

The manager argues that this strategy is misunderstood and very different to others in the market. They have delivered on being uncorrelated to equities and this is very different to other strategies which are correlated to equities. This means in theory it should behave differently. They have outperformed the benchmark and they argue they have protected on the downside and made money when they have got the macro call right.

They argue that this year they did in fact get the “macro call” right and that they were ahead of the benchmark until around late February. They did have around a 3% position in Russia and that cost the fund 2.4% in performance year to date. They haven’t written the position to zero and if this happens there will be around -0.4% further fall on the fund.

The negative performance this year comes on the back of a poor 2021 where they suffered due to inflation.

Looking at markets now they believe there is too much focus on inflation and not enough on growth and recession fears. They believe that central banks being less accommodating with money flows will impact risk assets. They also believe a big driver of global growth is China and they are not doing enough to drive the economy, and this is bad for global growth.

They think there will be a big fall in inflation and expect UK interest rates to peak around 2%, but much of this is priced into markets. They see stress in the bond markets like 2015 and 2018 and they think this could have a negative impact on lending to corporates and individuals.

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In terms of positioning, they are overweight headline duration, they are underweight investment grade credit, and they have some exposure to inflation and currency. They worry that China will side with Russia and this will be bad for markets, and so they feel not only are markets not pricing in a recession but also the geopolitical risks. For this reason the portfolio is very defensive and if their views are correct then they will do well, and this will reverse the underperformance that has been seen.

In summary, investors are buying a very different bond fund. My view is that much of the performance will be created in certain environments, and therefore there will be periods where this underperforms. If an investor goes in at the wrong point, then this will be an uncomfortable investment. I understand the argument that this is uncorrelated to equities but not everyone wants the journey this fund offers. We therefore remain unconvinced by the arguments but do understand for some investors this may be something that works for them.

The source of information in this note has been provided by Allianz and is correct as of March 2022. 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 decide based on these notes we cannot take responsibility for this, and you should carry out your own research before deciding. We would also recommend that you receive advice before following up on any decision.