

Aegon

Researched Fund Panel Update

At the Aegon Quarterly Review Meeting on 25th February 2019 the following changes to the Aegon Researched Fund Panel were agreed.

Additions

IA Global Bonds: M&G Global Macro Bond

Following the Aegon Quarterly Review Meeting in February 2019, we have added the M&G Global Macro fund to the Researched Fund Panel.

The fund holds a Morningstar Analyst Rating of Silver and is a flexible bond fund that can invest across global fixed-income and currency markets, take long and short positions using cash securities and derivatives, and move within a wide negative three- to ten-year duration range.

Jim Leaviss, M&G's head of retail fixed income, has managed this fund since its inception in September 1999. He joined M&G in 1997 after spending five years at the Bank of England. He has successfully managed a range of strategies at M&G and we believe that his deep and diverse experience are valuable here given the wide-ranging, macro-driven nature of this fund. Leaviss is supported by M&G's 11 other fixed income fund managers each with their own areas of expertise. This includes emerging markets debt specialist Claudia Calich, who has been the deputy here since July 2015. Her skill set is particularly helpful given the fund's increasing focus on emerging markets.

Leaviss applies a pragmatic approach to top-down idea generation, which is centred around a core valuation framework wherein anchors are established based on his view of global macroeconomic drivers (such as growth and inflation) and his understanding of their impact on long-term valuations for each asset class. These are overlaid with short- to medium-term market technical (such as the impact of central bank actions and fund flows among others) to help deal with intermitted market volatility. To reduce the fund's overall volatility, Leaviss builds a diversified range of high-conviction, but low-to-negatively correlated themes across rates, credit and currency markets. These are complemented by the team's established bottom-up expertise, particularly on the credit side. We believe the fund broadens the choice within this sector and therefore recommend adding it to the Researched Fund Panel.

IA £ Corporate Bond: iShares Corporate Bond Index (UK)

Following the Aegon Quarterly Review Meeting in February 2019, we have added the iShares Corporate Bond Index (UK) fund to the Researched Fund Panel.

This fund aims to closely track the performance of the Markit iBoxx GBP Non-Gilts Overall Index. The fund invests in fixed income securities that, at the time of purchase, comply with the credit rating requirements of the benchmark.

As with BlackRock's wider suite of index offerings, the fund is primarily managed with a team approach. The team is well resourced, and Duncan Fergusson is named fund manager and responsible for the day-to-day management on this specific strategy. The firm itself has a strong reputation for its cutting-edge risk analytics and its models are used to set risk parameters that all managers, including both active and passive, must follow.

The fund's management process is highly automated, and the fund employs stratified sampling to replicate the performance of the index. The index is broken down into sections, each representing key risk factors, such as duration, currency, or rating. The managers choose investments that mimic the risk profile of each section, keeping weight deviations between fund and index consistent with a tracking error target below 10 basis points. The fund is included in BlackRock's securities lending programme.

The Researched Fund Panel currently features a number of actively managed Sterling Corporate Bond funds and we believe the addition of a Passive Fund balances the fund selection and we therefore recommend adding the fund to the Researched Fund Panel.

IA Sterling High Yield: M&G Global High Yield

Following the Aegon Quarterly Review Meeting in February 2019, we have added the M&G Global High Yield fund to the Researched Fund Panel.

The fund holds a Morningstar Analyst Rating of Bronze and provides investors with a portfolio of global higher yielding bonds. It aims to outperform the IA £ High Yield Bond peer average and must have a minimum of 50% exposure in high-yield bonds and at least 80% sterling denominated (or hedged into sterling).

The fund is co-managed by experienced fund managers Stefan Isaacs and James Tomlins. Isaacs joined M&G in 2001 and was deputy manager on this fund from 2007 before being appointed lead manager in September 2010. The addition of James Tomlins as deputy fund manager in 2011 provided additional dedicated resource to the high yield capability in the team and he was named co-manager in January 2014. Additionally, the managers can draw upon the very well-resourced fixed income team in the UK and the US and benefit from the input of both sector analysts and fellow fund managers.

The managers focus on rigorous credit analysis that aims to understand each issuer and its balance sheet to minimise investing in deteriorating credits. This is complemented by top-down considerations, emerging from considerations of fundamentals, valuation and technical factors. The managers' position the fund as they see appropriate for the economic and market conditions, adjusting the fund's credit and country risk accordingly but always mindful of the fund's higher yield and monthly income distribution requirements. We view the fund as a strong replacement for the Kames High Yield Bond fund and therefore recommend adding the fund to the Researched Fund Panel.

IA Japan: Capital Group Japan

Following the Aegon Quarterly Review Meeting in February 2019, we have added the Capital Group Japan fund to the Researched Fund Panel.

The fund holds a Morningstar Analyst Rating of Bronze and provides broad exposure to the Japanese equity market.

As with all Capital Group funds, this fund follows a multimanager approach that aims to mitigate style-bias and ensure that stock selection is the main driver of returns through all market conditions.

The portfolio is split into four sleeves, of which three are managed by portfolio managers Seung Kwak, Andrew Johnsen, and Akira Horiguchi, respectively. All three have good experience and have been in place together on the fund since 2008. They each follow their own investment style and approach, which the group has purposefully selected in order to achieve a portfolio with an optimum blend of styles and market-cap exposure. While they undertake a significant amount of research themselves, they can also draw on the 16 strong analyst team for investment ideas. The final sleeve is managed as a research portfolio, reflecting the best ideas of the analyst team.

Kwak is responsible for setting the weights between each sleeve, although this is typically a matter of rebalancing to an equally weighted position. There are no constraints relative to the Topix benchmark at the underlying sleeve level or at that of the aggregate portfolio. While the combination of each underlying sleeve provides an element of diversification, the stock specific nature of the approach can result in significant active sector positions at times. We believe this fund represents a strong alternative to the Schroder Tokyo fund and therefore recommend adding it to the Researched Fund Panel.

Removals

IA Global Bonds: Invesco Global Bond (UK)

Following the Aegon Quarterly Review Meeting in February 2019, we have removed the Invesco Global Bond (UK) fund from the Aegon Researched Fund Panel.

The fund's remit has widened as the team has evolved with the final decision now in the hands of Stuart Edwards now. The fund's formal objective is to beat the peer average, but the peer group is far from homogeneous and the approach is more akin to a strategic bond fund to us. We therefore recommend removing the fund from the Researched Fund Panel.

IA £ Corporate Bond: Kames Investment Grade Bond and Kames Ethical Corporate Bond

Following the Aegon Quarterly Review Meeting in February 2019, we have removed the Kames Investment Grade Bond fund and the Kames Ethical Corporate Bond fund from the Aegon Researched Fund Panel.

On 30th November, Kames announced four departures from its fixed-income team, with immediate effect. Stephen Snowden left his position as co-head of fixed income; he was a named portfolio manager on the Kames investment Grade Bond fund and a key member of the investment-grade team. At that time the fund's Morningstar Analyst Rating was placed Under review. The Morningstar Analyst Rating has subsequently been downgraded to Neutral.

We have subsequently met with the new co-managers Euan McNeil and Grace Le to discuss the re-resourcing of the team and the new decision-making structure.

Iain Buckle and Euan McNeil continue to manage the Kames Ethical Corporate Bond fund. However, following a raft of departures from the broader Kames fixed income team, together with the additional responsibilities now placed on McNeil and Buckle as well as concerns over potential future personnel disruption have caused the Morningstar Research Analysts to downgrade the fund's Morningstar Analyst Rating to Neutral from Bronze.

Experienced duo Iain Buckle and Euan McNeil have headed up the Kames Ethical Corporate Bond strategy since 2009 and 2011, respectively. They are supported by the wider fixed income team at Kames, which as highlighted has recently undergone significant turnover, particularly at the most senior levels. Following the departures in November 2018, this fund's managers have taken on additional responsibilities. Buckle has taken on the head of credit position, and McNeil has been appointed lead portfolio manager on the team's flagship Kames Investment Grade Bond and its global counterpart Kames Investment Grade Global Bond (both are rated Neutral).

These changes follow a period of significant upheaval within the fixed-income team at Kames Capital, with heavy personnel churn across all levels of seniority and fixed-income subsectors over the past three years. In our opinion, the extensive experience of the portfolio managers and analysts in the team had previously been a key driver of the funds' long-term success. Given the loss of this experience from the team we no longer consider these funds to be amongst our highest conviction ideas and therefore recommend removing them both from the Researched Fund Panel.

IA Sterling High Yield: Kames High Yield Bond

Following the Aegon Quarterly Review Meeting in February 2019, we have removed the Kames High Yield Bond fund from the Aegon Researched Fund Panel.

In addition to the departure of Stephen Snowden highlighted in respect of the Kames Investment Grade Bond fund, two of the remaining four departures with David Ennett and Stephen Baines, managers of the Kames High Yield Bond fund. They had 20 years' industry experience and 15 years' portfolio management experience between them and had managed this strategy since 2016. Their departure had a large impact, given the lack of experience of the remaining high-yield team members. Jack Holmes and Mark Benbow are now co-managers on this fund. We therefore recommend removing the fund from the Researched Fund Panel.

IA Japan: Schroder Tokyo

Following the Aegon Quarterly Review Meeting in February 2019, we have removed the Schroder Tokyo fund from the Aegon Researched Fund Panel.

Schroders have announced that the fund's manager Andrew Rose will retire in June 2019. Rose has managed the fund since 2004, and his departure will mark a significant loss in experience. He will be succeeded as lead manager on this fund by Masaki Taketsume. Taketsume has worked on the Japanese equity team at Schroders for over a decade, initially as an analyst based in Tokyo, before moving to London to work alongside Rose on this fund in August 2017. The fund's Morningstar Analyst Rating has been placed Under Review pending a meeting with Masaki Taketsumi however given his limited portfolio management experience our conviction in the fund has waned and we therefore recommend removing the fund from the Researched Fund Panel.

IA Specialist: JPMorgan Natural Resources

Following the Aegon Quarterly Review Meeting in February 2019, we have removed the JPMorgan Natural Resources fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however we are removing the fund from the Panel in order to replace it with one of our higher conviction ideas and to broaden the fund choice on the Panel.

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