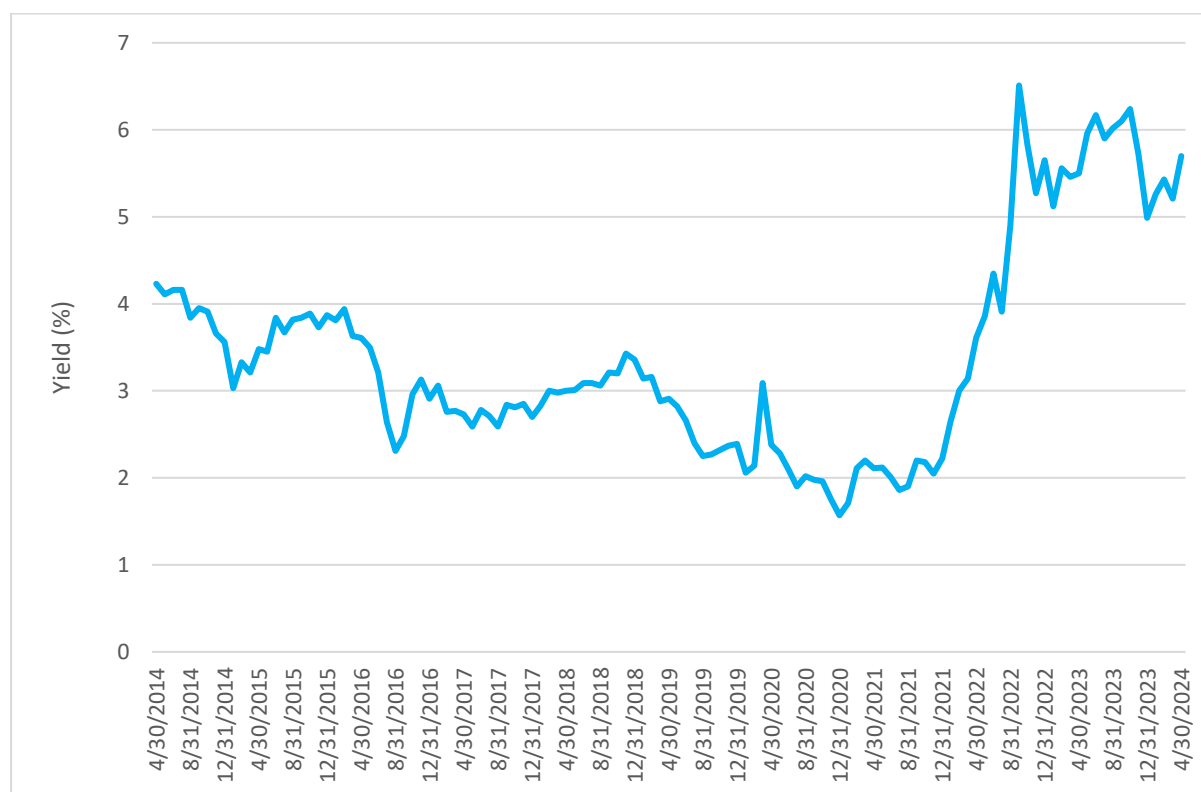


## A fine time to lock in higher bond yields

By Alasdair Ross, Head of Investment Grade Credit, EMEA; and David Oliphant, Executive Director, Fixed Income

Thinking about duration in investment grade credit hasn't been top of clients' minds in recent years – with good reason. Bond yields have been exceptionally low, with the Sterling five-year corporate bond yield falling from around 4% in the middle of the previous decade to almost 1.5% by the end of 2020 (Figure 1).

**Figure 1: Sterling five-year plus Corporate Bond Index yield, 2014-24**

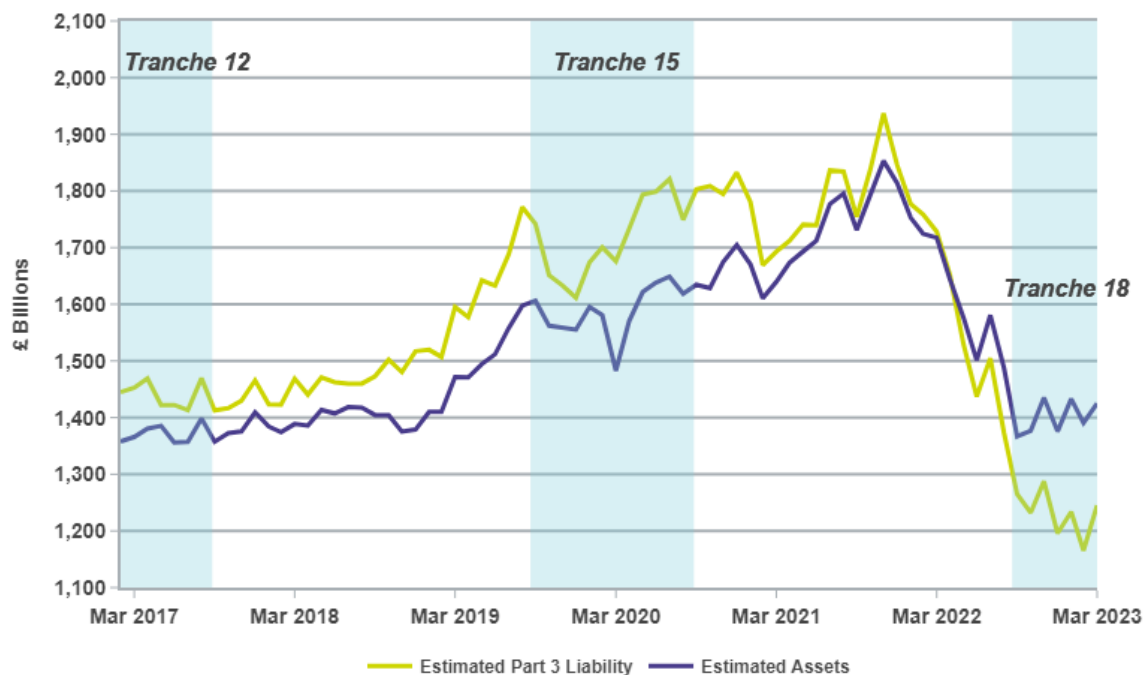


Source: ICE indices, 30 April 2024

But between 2020 and 2022 we saw a period of bond yield normalisation and now the yields and income on offer are high: over the past three or so years index yields have risen from that 1.5% low to 5.7% today – close to the highest on offer in the past decade. With expectations that central banks will soon begin to cut interest rates, clients are seeing the value in "locking-in" these higher levels of income for as long as possible.

Furthermore, UK pension schemes, which have recently moved from deficit to healthy surplus as yields have risen materially (Figure 2) might also choose to lock-in the security of that position. As such, they could seek to match their longer-dated liabilities with closely matched assets such as medium- and long-dated investment grade corporate bonds. These are just the kind of investments we like to make in our CT Medium and Long-dated Non-Gilt strategy.

**Figure 2: Funding position of UK pension schemes, 2017-23**



Source: The Pensions Regulator/Refinitiv, September 2023. Figures shows technical provisions (TPs) for all DB schemes, based on rolling back and projecting forward the data held on 30 September 2022 (rather than using historical data at historical dates). This is an aggregate analysis based on highly summarised data. Overall, the changes in market conditions and aggregate pace of schemes' funding plans mean that deficits on a TPs basis as at December 2019 and March 2020 are expected to have turned into surpluses as at December 2022 and March 2023.

### Why Columbia Threadneedle for fixed income?

At Columbia Threadneedle Investments we pride ourselves on a robust investment process based on high-quality independent credit research. The strategy has a long track record of consistent out-performance and has been built using the same investment philosophy and bottom-up research-driven process that has provided long-term risk-adjusted returns across our business.

Risk and return are targeted on issuer and security selection in a team-based approach that focuses on downside risk management, allowing it to consistently perform through a variety of market environments in a risk-adjusted manner (as illustrated by the information ratio<sup>1</sup>), not just by taking more risk or yield than the benchmark.

	Relative return	Information ratio
<b>1 year</b>	+44bps	-
<b>3 years</b>	+42bps per annum	0.75
<b>5 years</b>	+59bps per annum	1.11

Source: Columbia Threadneedle Investments, as at May 2024

<sup>1</sup> Morningstar.com. Information ratio measures the consistency of a fund or other investment's outperformance compared with a benchmark. Its risk adjusted. Generally, an information ratio of 0.5 or above is considered good.

## Conclusion

Yields are much higher than during the extended period of low interest rates and quantitative easing that followed the global financial crisis in 2008/09. Additionally, most market experts suggest we are at the top of the Bank of England's recent interest rate rising cycle and are predicting falling base rates into the year-end and beyond. If this proves to be the case, bond yields should follow – which would add capital return to the already high starting yield.

## Threadneedle Sterling Medium and Long-Dated Non-Gilt Composite

### GIPS Report

Columbia Threadneedle Investments EMEA APAC

Reporting Currency: GBP

Statement of Performance Results



Calendar Year	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)	Composite 3-Yr St Dev (%)	Index 3-Yr St Dev (%)	Internal Dispersion (%)	Number of Portfolios	Total Composite Assets (mil.)	Total Firm Assets (bil.)
2023	11.23	10.84	10.55	12.89	12.69	N.A.	≤ 5	244.2	96.05
2022	-24.51	-24.78	-24.58	13.01	12.80	N.A.	≤ 5	250.4	95.48
2021	-3.83	-4.17	-4.19	8.23	8.03	N.A.	≤ 5	307.6	119.10
2020	11.23	10.79	10.29	7.52	7.30	N.A.	≤ 5	293.9	109.60
2019	13.23	12.79	12.15	4.88	4.75	N.A.	≤ 5	316.9	106.07
2018	-2.31	-2.70	-2.24	6.78	6.79	N.A.	≤ 5	239.2	95.66
2017	6.23	5.80	5.48	8.06	8.22	N.A.	≤ 5	219.5	109.03
2016	14.47	14.01	13.50	7.92	8.14	N.A.	≤ 5	226.4	105.24
2015	0.63	0.23	0.07	7.53	7.58	N.A.	≤ 5	239.7	95.90
2014	15.85	15.39	15.65	6.30	6.23	N.A.	≤ 5	629.8	95.06

Annualized Trailing Performance as of December 31, 2023

Period	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)
1 Year	11.23	10.84	10.55
5 Years	0.34	-0.03	-0.24
10 Years	3.48	3.09	2.96
Inception	4.50	4.10	3.88

Inception Date: November 30, 2011

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Exchange Commission and as a Commodities Trading Advisor with the U.S. Commodity Futures Trading Commission. TIS is regulated in Singapore by the Monetary Authority of Singapore. TMLSA is authorised and regulated in Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). On 1 July 2020, Threadneedle Asset Management Malaysia Sdn. Bhd (TAMM) was removed from the firm. Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. Beginning 30 March 2015, the Columbia and Threadneedle group of companies, which includes multiple separate and distinct GIPS-compliant firms, began using the global offering brand Columbia Threadneedle Investments.

3. The strategy invests at least two-thirds of its assets in investment grade corporate bonds with a remaining maturity of 5 years or more. The strategy may also invest in other bonds (including below investment grade corporate bonds, and government bonds) when considered appropriate to achieve its investment objective. The Strategy considers ESG factors within its investments. At least 50% is invested in issuers with strong Columbia Threadneedle ESG Materiality ratings, which is also expected to lead to a better weighted average ESG Materiality rating for the Strategy than the Index. The Strategy only invests in bonds issued by companies that follow good governance practices and are not excluded based on the exclusionary framework. Derivative instruments may be used for efficient portfolio management and currency management. The primary use of derivatives is not designed to create a highly leveraged investment position. The composite was created 01/05/2017.

4. The gross-of-fees returns are time-weighted rates of return with cash flows at the end of the day. Returns reflect the reinvestment of dividends and other earnings and are net of commissions and other transaction costs. Returns are calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains and are shown before management and custodian fees but after the deduction of trading expenses. Composite returns are calculated by using underlying portfolio beginning of period weights and monthly returns. Periodic returns are geometrically linked to produce longer period returns. Net of fee returns are calculated by deducting the representative fee from the monthly gross return. Prior to 30th Sept 2022 the gross returns were calculated using daily authorised global close valuations with cash flows at start of the day, and were shown before management and custodian fees but after the deduction of trading expenses. Returns were gross of withholding tax. Policies for valuing investments, calculating performance, and preparing GIPS Reports, as well as the list of composite descriptions, list of pooled fund descriptions for limited distribution pooled funds, and the list of broad distribution pooled funds are available upon request.

5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns represented within the composite for the full year. Dispersion is only shown in instances where there are six or more portfolios throughout the entire reporting period. The Standard Deviation will not be presented unless there is 36 months of monthly return data available.

6. The three year annualised ex-post standard deviation measures the variability of the gross-of-fees composite and benchmark returns over the preceding 36 month period.

7. The following fee schedule represents the current representative fee schedule for institutional clients seeking investment management services in the designated strategy: 0.35% on the first £25m; 0.3% on the next £25m; 0.25% on the next £50m; negotiable thereafter. Gross of fee performance information does not reflect the deduction of management fees. The following statement demonstrates, with a hypothetical example, the compound effect fees have on investment return: If a portfolio's annual rate of return is 5% for 5 years and the annual management fee is 35 basis points, the gross total 5-year return would be 27.6% and the 5-year return net of fees would be 25.4%.

8. The iBoxx GBP Non Gilt Index represents the investment grade fixed-income market for Sterling-denominated bonds with a maturity of 5 years or greater. Index returns reflect the reinvestment of dividends and other earnings and are not covered by the report of the independent verifiers.

9. Past performance is no guarantee of future results and there is the possibility of loss of value. There can be no assurance that an investment objective will be met or that return expectations will be achieved. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods.

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