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Janus Henderson
INVESTORS

Quilter

Absolute success



Thanks to its high-conviction approach and its track record for consistent, low-risk returns, the Quilter Investors Absolute Return Bond Fund, managed by Janus Henderson, has been a core holding for the WealthSelect Managed Portfolios since its launch in 2018.

1

A focus on income generation

The Quilter Investors Absolute Return Bond Fund employs a risk-adjusted approach to generate a consistent income that's above the returns available from cash and money market funds, but for less risk than conventional bond investments.

The fund's remit allows it to access all parts of the global fixed-income universe. It aims to provide a cash plus 2% return across economic cycles while mitigating the risk of interest-rate volatility.

The strategy also avoids the structural biases that arise in conventional bond indices and those areas where it sees the greatest risks or where liquidity is poor.

The Janus Henderson team filters its investment universe using proprietary quantitative analysis. It then performs credit research to evaluate the opportunities unearthed and find the most efficient, and liquid, way to invest.

2

Capital preservation mindset

The fund's focus on downside protection means it avoids sectors with the greatest risk of loss and is less sensitive to interest-rate changes than a typical core, fixed-income portfolio.

It also seeks to include some relative-value (or pairs trading) positions to generate additional alpha. These are low-risk trades that are actively managed to provide greater diversification and ensure that your clients are adequately compensated for the risks taken.

The fund focuses on minimising default and liquidity risk by looking across the issuance spectrum to find the most attractive jurisdiction, capital structure, and maturity profile for each bond.

Risk management is also baked into the process. This enables the fund to respond to changes in markets while maintaining a stable, liquid portfolio throughout a market cycle.

3

Uncorrelated returns

The fund's index-agnostic, global approach creates a low-volatility income stream, regardless of market conditions, with absolute returns that are uncorrelated to bond markets.

The fund management team seeks out those areas that offer the greatest, low-risk return potential while avoiding the structural biases of conventional bond indices.

The fund's derivative overlay of relative-value trades is based on discrepancies identified across countries, credit spreads, volatility, sectors, yield curves, interest-rate sensitivity, and currency. This extends the number of potential return drivers for the strategy.

With a core portfolio of income-generating bonds and a derivatives-based, alpha strategy overlay, the fund has the potential to deliver enhanced returns, but with less risk over a market cycle.

High conviction

The fund employs a high-conviction approach based on the belief that bond index benchmarks constrain investors by forcing them to hold the largest issuers.

Janus Henderson argues that index-based investing further limits the opportunity set as indices only represent a fraction of the fixed-income market and that they're subject to significant compositional drift, which limits the usefulness of past performance analysis.

Creating the mandate

We launched this sub-advised mandate with Janus Henderson at the end of 2018. The strategy, which takes a different approach to most alternative fixed-income offerings, was originally run by an investment management firm called Kapstream. When Janus Henderson acquired Kapstream in 2015, this strategy joined its stable of fixed-income offerings.

Thanks to our analysts, we were already well informed about the Kapstream approach. Consequently, we approached Janus Henderson to run a mandate for us that would replicate its existing retail fund.

At the time, we were diversifying our alternatives holdings and moving away from commercial property as an asset class. Thanks to its non-traditional approach and its low-volatility, cash-plus income stream, the Quilter Investors Absolute Return Bond Fund was the perfect diversifier for other alternative holdings such as the Quilter Investors Global Equity Absolute Return Fund, and the PIMCO Dynamic Bond Fund.

A core holding

On of the key reasons we hold the fund is for the predictability of the return stream it generates. Its low volatility of returns has made the Quilter Investors Absolute Return Bond Fund a core holding and, thanks to being held right across the WealthSelect Managed Portfolios, the fund has grown to become our largest sub-advised mandate at around £850¹ million.



¹ Assets under management as at 15 March 2024.

Key takeaways

- ▶ The Quilter Investors Absolute Return Bond Fund is an alternative fixed-income approach that seeks to generate a predictable, low-risk income of cash plus 2%, for less risk than conventional bond investments.
- ▶ The fund holds traditional credit assets and incorporates an overlay of low-risk, relative-value trades using derivative contracts.
- ▶ The fund combines a focus on income generation and capital preservation to deliver returns that are uncorrelated to major market indices.

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