ARTICLE
For professional investors
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Multi-Factor Credits fund marks birthday with outperformance

- Robeco Global Multi-Factor Credits adds 63 bps over benchmark
- Fund is overweight defensive sectors and underweight banks
- Enhancements made for ESG integration and the Value factor

Patrick Houweling, Portfolio Manager

"Putting your research to the test is always exciting, and if it then works out well, then that's very satisfying." That's how Patrick Houweling describes celebrating the first anniversary of the Global Multi-Factor Credits fund, with an outperformance chart to go with the birthday cake.

The fund uses the Low-Risk, Value, Momentum and Size factors to find outperforming bonds in the global investment grade corporate bond market. Houweling's background as a quantitative researcher means that theory must work in practice if the fund is to succeed in a market that is sensitive to volatility.

And it has certainly been an eventful year. Since the fund was launched one year ago it has lived through the start of negative interest rates in the Eurozone, a US rate rise, a collapse in the oil price, and finally the shock Brexit vote. But the result was ending the first year with outperformance of 63 basis points, returning 6.73% for investors compared with 6.10% for the benchmark.

'The Brexit balanced out in the end'

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Sector allocation		Deviation benchmark
Consumer Non Cyclical	17.7%	4.6%
Insurance	12.3%	6.5%
Consumer Cyclical	10.7%	2.9%
Capital Goods	10.3%	5.9%
Communications	9.1%	-0.1%
Technology	8.7%	3.8%
Banking	6.9%	-20.8%
Electric	6.7%	1.0%
Owned No Guarantee	4.6%	4.6%
Energy	4.4%	-3.2%
Basic Industry	3.9%	0.4%
Other	4.6%	-5.7%
Cash and Cash Equivalents	0.2%	0.2%

Asset allocation in the fund at 30 June 2016. Source: Robeco

Very volatile year

"It was a very volatile year, but nonetheless we stood our ground and ended the year with 63 basis points of outperformance, which was very satisfying for us," says Houweling. "The outperformance was higher during the year, but then it fell back a bit. We had some very good months, particularly in December, January and February when there was a big sell-off in banks and energy, where we were underweight to both sectors. So that's where we profited a lot."

"For the Brexit we had some good positions along with the bad, and it all balanced out in the end, with hardly any performance impact despite everything that happened. We were underweight UK banks but overweight in sterling-denominated bonds, and the fund is hedged, so there's no currency exposure."

"The portfolio has been pretty stable, with a lower volatility than the market; we've generally been overweight the more defensive sectors such as consumer non-cyclicals and technology. Given the macro shocks seen during the year, in that sense that was a good call."

"The ECB's Corporate Bond-buying program has also been a significant disruptor to trading conditions, but one that we were well positioned to weather due to our systematic approach to liquidity identification."

Factors behaved differently

Houweling says the main reason for launching the fund was client demand for this style of investing which has been so successful in equity markets. The fund focuses on Low-Risk, Value, Momentum, and Size to find the winners in corporate bonds.

Performance: EUR IH share class	*One year*	*Q3 2015*	*Q4 2015*	*Q1 2016*	*Q2 2016*
Robeco Global Multi-Factor Credits fund, gross of fees	6.73%	0.66%	0.20%	3.26%	2.48%
Barclays Global Aggregate Corporates Index (hedged into EUR)	6.10%	0.33%	-0.11%	3.03%	2.75%

The performance figures presented above correspond to the EUR IH share class of the Robeco Global Multi-Factor Credits fund launched in June 2016. Performance for other share classes may vary. The value of your investments may fluctuate. Past results are no guarantee of future performance. All data to 30 June 2016.

But these don't always come into play at the same time, and often one factor can be in vogue at the expense of others, depending on market conditions. That's why it's important to adopt a multi-factor approach, he says.

"In the first seven months of the fund, the Low-Risk factor did particularly well, but then didn't work well in the last few months because it was a bull market then," Houweling says. "Value was negative in the first half, but this reversed and contributed positively in the second half. Overall, Momentum was the best factor over the whole year, whereas Value and Low Risk complemented each other; where one did well in the first half, the other did well in the second half, and vice versa."

Better use of ESG

Houweling says he introduced two enhancements to the fund; one in how Environmental, Social and Governance (ESG) factors are used, and another for making the Value factor more responsive to prevailing market conditions.

"We have always used ESG integration to find risks that are beyond the scope of the quant model, but from July 1 we have imposed a new constraint in the portfolio construction so that the ESG score of the portfolio is at least as good as the ESG score of the benchmark," he says. "This means that if you have a choice between two bonds with the same scores from the multi-factor model that drives the fund, we would pick the one with the better ESG score. The portfolio already had a strong ESG score, so we don't have to change a lot, as the model already has a preference for more sustainable companies."

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Being more responsive

Keeping pace with constantly changing markets in a year that saw a collection of differing macroeconomic shocks is another innovation. "We're constantly doing research and trying to improve use of the factors." Houweling says. "Our Value factor looks for the trade-off between the credit spread and risk, where you look for bonds that are mispriced versus a peer group of bonds with a similar risk profile. We've added a new risk measure that is more responsive to changes in market circumstances."

'We're constantly trying to improve use of the factors'

"We already used metrics like rating, leverage or profitability, but ratings tend to be sticky, and accounting-based data only comes out quarterly. So we wanted a variable that was more responsive, derived from market information."

The fund is popular with pension funds and other institutional investors, and now has EUR 240 million in assets under management. There are six people in the team: Houweling and his co-portfolio manager Mark Whirdy, plus two researchers and two database and tool specialists. One of the researchers, Jeroen van Zundert, co-wrote an academic research paper entitled 'Factor investing in the corporate bond market' with Houweling in 2014.

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