BlueBay Asset Management

Ability & agility: Making the A-grade in unconstrained fixed income

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Why fixed income and parkour have more in common than you might think.

In parkour, the free-running sport that sees athletes using urban landscapes as their training ground, proponents take a go-anywhere, use-anything approach.

A row of garages? Handstand-spring over it. A bus shelter? Vault and somersault to the opposite pavement.

Their ability and agility in tackling everyday objects and obstacles in a series of smooth transitions, has made many of them YouTube sensations. Their strength, discipline and eye for opportunity has put the sport apart from traditional gymnastics and athletics.

While less likely to be a viral internet smash, unconstrained fixed income managers operate in the same way.

Their approach of going anywhere and using any type of instrument means they look for opportunities where others may prefer to take the well-trodden route with the rest of the crowd.

While undergoing the same level of training as their traditional peers, both parkour athletes and unconstrained managers need to be able to use their strength and agility to flex and seize opportunities as they present themselves.

The difference between the two is that should a parkour athlete stumble, they have just themselves to injure – for an unconstrained fixed income manager, there is more at stake.

So, investors looking to take on one of these managers, need to first understand how they are different from the rest of the field, but also test they are not just showboating for the crowd.

We believe that only by delving deep into a manager's strategy can an investor truly understand which path they are likely to take. While an investor might be impressed by their manager backflipping over a certain issuance or sector, they should not be surprised to see them do it and they must understand why they did not follow everyone else.

This dive by an investor into an unconstrained portfolio should also show exactly what the manager holds, in terms of factors, sectors and geographies, to avoid duplication of risk with other parts of a portfolio and allow proper diversity.

The investor must also understand the liquidity profile of any unconstrained fund – you do not want your manager to execute a perfect triple flip into a basement, only to be stuck there. They must also be able to measure the performance of a manager if they are not going to use the traditional benchmark of a perfect 10 or sub-two hour marathon.

Finally, investors must consider the pedigree of their manager and their available resources. Is this their first cycle, have they done enough in-depth research about what lies ahead – or have they taken on too great a task?

Like fixed income investing, when parkour goes well, it is spectacular and rewarding. Similarly, those signing up with an unconstrained managed need to acknowledge and recognise the agility and ability that is needed by those carrying it out to succeed.