# Take Note

## EURO FIXED INCOME (RIC II, MSMM) – MANAGER CHANGES

We have improved the manager line-up in the MSMM and RIC II Euro Fixed Income Funds (the Funds) by removing Sal Oppenheim at a 30% weight and hiring Fidelity Investments International at a 30% weight.

### Reasons for the change

The main reasons for the change are to enhance the Funds' outperformance potential and to increase process diversification within the Funds. Fidelity is very strong in credit and would bring additional issue selection and significant sector rotation skills to the Funds.

### A well-diversified portfolio mix

Fidelity's core competence is security selection and sector rotation, while Robeco - 30% of the Funds, and Western - 40% of the Funds, have a greater focus on interest rate management. Adding Fidelity will increase process diversification and improve the Funds' ability to perform well in different environments.

### Fidelity's bond management technique

Fidelity Investments International emphasises non-government debt strategies to add value to Euro fixed income portfolios and will typically overweight credit sectors. Fidelity has a deep and experienced team of fundamental corporate credit analysts, enabling the research to cover a wide ranging universe of credits. The firm also seeks excess returns from asset allocation (e.g. into foreign bonds or index-linked bonds) and yield curve management. The firm also has strong capabilities in the extended sectors such as high yield and emerging market debt.

Paul Lavelle, the lead portfolio manager and head of Fidelity's Euro Institutional Fixed Income team, is a strong, experienced investor. He has a strong command of his portfolios and he works closely with the research team to put the best ideas to work.

Fidelity believes that macroeconomic factors are difficult to predict consistently and reduces its reliance on macroeconomic forecasting and interest rate anticipation by only taking moderate duration positions relative to benchmark. Fidelity prefers to focus on security selection and sector rotation and aims to build portfolios containing a large number of uncorrelated active positions in which it has a high degree of confidence.

Fidelity adopts a team-based decision-making structure which draws upon the input of its credit, quantitative, trading and equity specialists in order to formulate investment strategy. However, Paul Lavelle, is ultimately responsible for portfolio strategy and performance.

### Will the Funds' characteristics be affected?

There will be an increase in added value as we expect Fidelity to run a more aggressive portfolio than Sal Opp. However, the overall fund level tracking error is unlikely to go up significantly as Fidelity's process will bring enhanced manager diversification to the fund mix. Fidelity's risk is likely to come predominately from bottom-up security selection and sector rotation, complementing the more top-down approaches of Western and Robeco.

## Manager weights

| Manager | Key skills | Previous Fund Weight (%) | New Fund Weight (%) |
|---|---|---|---|
| Western | Duration and Sector Rotation | 40 | 40 |
| Robeco | Duration and Security Selection | 30 | 30 |
| Sal Oppenheim | Duration and Sector Rotation | 30 | - |
| Fidelity | Security Selection and Sector Rotation | - | 30 |