

## AlphaPredictor® Insights

### Investment Association Sector: Sterling Strategic Bond

Date: September 2026

### Three Key Takeaways

#### 1. The Anatomy of Alpha: All-Weather Selection Skills versus Macro Timing Skills

The analysis decomposes Alpha into distinct security selection and business cycle components, allowing advisers to evaluate how sterling strategic bond managers generate excess returns.

- **All-weather Alpha (security selection):** BlackRock Sterling Strategic Bond and Royal London Sterling Extra Yield Bond lead in all-weather Alpha, driven by bottom-up credit and security selection skills.
- **Time-varying Alpha (macro navigation):** Man Dynamic Income displays strong time-varying Alpha, reflecting agile macroeconomic positioning across duration and yield curve shifts.
- **Bottom Quartile Headwinds:** Representative expected bottom quartile funds suffer from widespread negative time-varying Alpha, indicating macroeconomic headwinds and sub-optimal cycle timing.

#### 2. Duration Positioning and Credit Exposure Divergence

A divergence emerges in how top quartile and bottom quartile managers capture fixed income risk factors across changing rate regimes.

- **Credit Focus:** High-yield oriented strategies like Artemis High Income Fund and Royal London Sterling Extra Yield Bond Fund rely primarily on credit exposure while maintaining defensive duration.
- **Duration Management:** Man Dynamic Income and BlackRock Sterling Strategic Bond maintain positive Term Beta exposures, capturing capital appreciation from yield curve shifts.
- **Bottom Quartile Headwinds:** Expected bottom quartile funds generally feature lower credit spread capture and face a drag from broader benchmark market exposures.

#### 3. Fund Alpha and Sensitivities to the Macro Environment

Fund macroeconomic sensitivities highlight beneficiaries and vulnerable funds under evolving market conditions.

**Potential Winner: Active Macro Positioning.** Man Dynamic Income is well positioned to capitalise on rising short-term interest rates and term spread shifts to generate time-varying Alpha in the current monetary climate.

**Potential Losers: Vulnerability to Rate and Spread Compression.** Invesco Tactical Bond (UK) and Janus Henderson Strategic Bond: Both strategies display negative sensitivities to rising short rates and positive sensitivities to default spreads, creating time-varying Alpha compression as spreads narrow.

#### Top versus Bottom Quartile Characteristics

| Characteristic        | Expected Top Quartile                                                    | Expected Bottom Quartile                                           |
|-----------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------|
| Primary Alpha Source  | Positive All-weather and time-varying Alpha                              | Widespread negative time-varying Alpha                             |
| Credit Exposure       | Substantial positive Credit Premium sensitivity                          | Moderate to low Credit Premium capture                             |
| Duration Management   | Dynamic split between long duration and tactical short duration          | Rigid benchmark duration with negative term premium drags          |
| Key Macro Sensitivity | Beneficiaries of rising short term interest rates and term spread shifts | Penalized by rising short term rates and narrowing default spreads |

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## AlphaPredictor® Insights

### Our latest AlphaPredictor® insights

#### Investment Association Sector: Sterling Strategic Bond

Forecast horizon: 3-month ahead forward-looking view

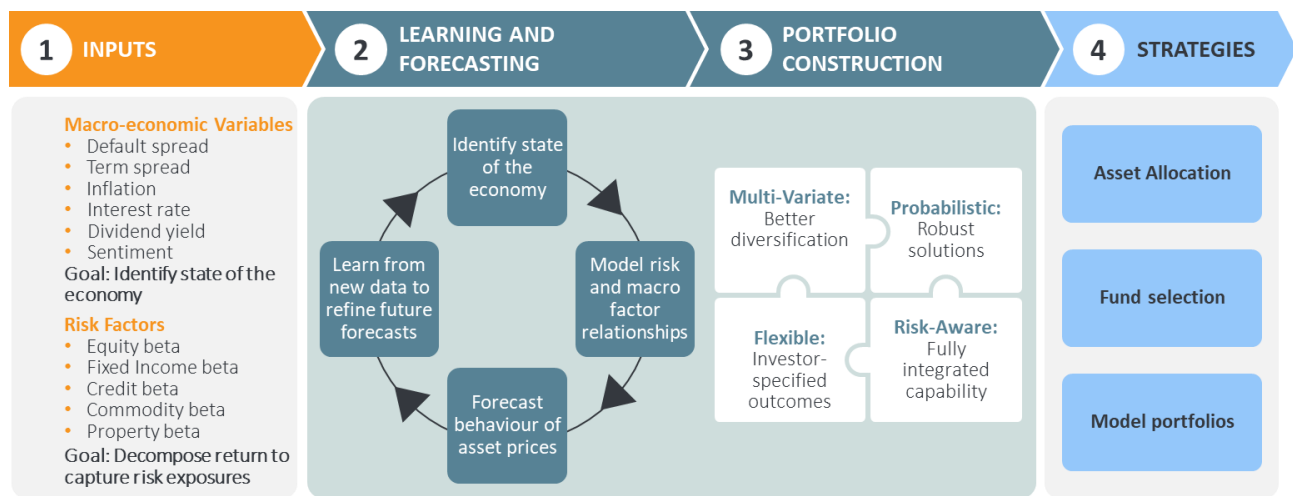
Date: September 2026

### How were these funds selected?

The funds below were selected from the UK Equity Income peer group. Five funds were chosen to represent the top and bottom quartiles based on their 3-month expected return rankings, with a minimum fund size of at least £75 million and a historical ranking within one quartile of their forward-looking quartile ranking.

### About the AlphaPredictor® Methodology

AlphaPredictor® is an advanced learning methodology collaboratively developed by leading academics and experienced practitioners. It forecasts investment asset behaviour across the business cycle and adapts rapidly to changing market conditions. In the case of actively managed funds, AlphaPredictor® can help identify the future “best” performers and avoid underperformers. The methodology is also used for asset allocation and portfolio construction to select the best combination of assets to hold at any point in the business cycle while diversifying against different economic outcomes.



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## AlphaPredictor® expected return breakdown for each fund shown as monthly return contributions

### Representative expected top quartile funds

| Fund name                              | Expected return (%) | All-weather Alpha (%) | Time-varying Alpha (%) | Beta return (%) | Risk-free rate |
|----------------------------------------|---------------------|-----------------------|------------------------|-----------------|----------------|
| Artemis High Income                    | 0.44%               | 0.13%                 | -0.09%                 | 0.09%           | 0.32%          |
| AXA Managed Income                     | 0.51%               | 0.16%                 | -0.02%                 | 0.05%           | 0.32%          |
| Blackrock Sterling Strategic Bond      | 0.75%               | 0.26%                 | 0.00%                  | 0.17%           | 0.32%          |
| Man Dynamic Income                     | 1.22%               | 0.14%                 | 0.30%                  | 0.45%           | 0.32%          |
| Royal London Sterling Extra Yield Bond | 0.73%               | 0.23%                 | 0.11%                  | 0.08%           | 0.32%          |
| Peer Group Average                     | 0.34%               | 0.01%                 | -0.08%                 | 0.08%           | 0.32%          |

Expected return = Risk-free rate + All-weather Alpha contribution + Time-varying Alpha contribution + Beta contribution

Beta return contribution = Sum of the Beta factor exposures multiplied by the expected returns of each Beta factor

All-weather Alpha = Alpha component that is independent of business cycle changes and associated with security selection

Time-varying Alpha = Sum of the Alpha sensitivities to the macroeconomic variables multiplied by their (expected) changes

### Comments

- All representative expected top quartile funds achieve expected returns and total Alphas above the peer group average, driven by positive All-weather Alpha from bottom-up bond selection.
- Artemis High Income and AXA Managed Income:** Both funds deliver expected returns above the peer group average anchored by positive All-weather Alpha from credit selection, though current macro conditions generate minor time-varying Alpha drags.
- BlackRock Sterling Strategic Bond and Royal London Sterling Extra Yield Bond:** Achieve elevated expected returns through high All-weather Alpha contributions, reflecting disciplined credit analysis and robust security selection across sterling corporate sectors.
- Man Dynamic Income:** Leads the representative top quartile funds with the highest expected return, propelled by positive contributions from both time-varying Alpha and Total Beta return.

### Representative expected bottom quartile funds

| Fund name                       | Expected return (%) | All-weather Alpha (%) | Time-varying Alpha (%) | Beta return (%) | Risk-free rate |
|---------------------------------|---------------------|-----------------------|------------------------|-----------------|----------------|
| CT Strategic Bond               | 0.21%               | -0.04%                | -0.14%                 | 0.07%           | 0.32%          |
| Fidelity Strategic Bond         | 0.23%               | -0.01%                | -0.17%                 | 0.09%           | 0.32%          |
| Invesco Tactical Bond Fund (UK) | 0.16%               | 0.08%                 | -0.28%                 | 0.05%           | 0.32%          |
| Janus Henderson Strategic Bond  | 0.14%               | 0.03%                 | -0.24%                 | 0.03%           | 0.32%          |
| Waverton Sterling Bond          | 0.21%               | -0.01%                | -0.10%                 | -0.01%          | 0.32%          |

### Comments

- All representative expected bottom quartile funds suffer from negative time-varying Alpha, demonstrating that unfavourable business cycle positioning depresses overall expected returns.
- CT Strategic Bond and Fidelity Strategic Bond:** Both funds generate expected returns below the peer group average due to combined negative drags from all-weather Alpha and time-varying Alpha.
- Invesco Tactical Bond (UK) and Janus Henderson Strategic Bond:** Despite generating positive all-weather Alpha through bottom-up security selection, both funds see their total expected returns dragged down by negative time-varying Alpha.
- Waverton Sterling Bond:** The fund has negative expected return contributions from all-weather Alpha, time-varying Alpha, and Total Beta.

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## AlphaPredictor® Beta factor contributions to fund expected returns

### Representative expected top quartile funds

| Fund name                              | Total Beta return (%) | Bond Market Beta | Term Beta | Credit Beta |
|----------------------------------------|-----------------------|------------------|-----------|-------------|
| Artemis High Income                    | 0.09%                 | -0.03%           | -0.02%    | 0.15%       |
| AXA Managed Income                     | 0.05%                 | -0.03%           | -0.04%    | 0.13%       |
| Blackrock Sterling Strategic Bond      | 0.17%                 | -0.02%           | 0.10%     | 0.10%       |
| Man Dynamic Income                     | 0.45%                 | 0.05%            | 0.26%     | 0.15%       |
| Royal London Sterling Extra Yield Bond | 0.08%                 | -0.03%           | -0.02%    | 0.13%       |
| Peer Group Average                     | 0.08%                 | -0.02%           | 0.02%     | 0.09%       |

### Comments

- Credit Beta serves as the primary driver of positive Total Beta returns across expected top quartile funds, effectively overcoming headwinds from broad market aggregate bond exposure which has a low expected return over the coming three months.
- **Artemis High Income, AXA Managed Income and Royal London Sterling Extra Yield Bond:** These income-focused strategies generate Total Beta returns primarily through positive Credit Beta contributions, compensating for minor drags from market benchmark and Term Beta factors.
- **BlackRock Sterling Strategic Bond:** Achieves a balanced expected Total Beta return with positive contributions from both Credit Beta and Term Beta factors.
- **Man Dynamic Income:** Delivers the highest Total Beta return in the sector, propelled by strong positive contributions from both Term Beta and Credit Beta factors. *Note this fund has a significant exposure to derivatives which it uses for leverage, shorting, and macro and currency risk hedging.*

### Representative expected bottom quartile funds

| Fund name                       | Total Beta return (%) | Bond Market Beta | Term Beta | Credit Beta |
|---------------------------------|-----------------------|------------------|-----------|-------------|
| CT Strategic Bond               | 0.07%                 | -0.03%           | -0.01%    | 0.11%       |
| Fidelity Strategic Bond         | 0.09%                 | -0.02%           | 0.04%     | 0.08%       |
| Invesco Tactical Bond Fund (UK) | 0.05%                 | -0.02%           | -0.02%    | 0.09%       |
| Janus Henderson Strategic Bond  | 0.03%                 | -0.04%           | -0.03%    | 0.10%       |
| Waverton Sterling Bond          | -0.01%                | -0.03%           | -0.01%    | 0.04%       |

### Comments

- Representative expected bottom quartile funds generate lower Total Beta returns than top quartile peers with generally lower factor return exposures than the peer group average.
- **CT Strategic Bond, Invesco Tactical Bond (UK) and Janus Henderson Strategic Bond:** These funds achieve modest positive returns from the Credit Beta which are partially offset by negative contributions from both market aggregate bond and Term Beta factor exposures.
- **Fidelity Strategic Bond:** Captures positive expected returns from its Credit and Term Beta factor exposures with an expected Beta return similar to the peer group average.
- **Waverton Sterling Bond Fund:** The only fund in the bottom quartile with a negative expected Total Beta return, as market benchmark and Term Beta drags overwhelm its positive expected return from credit exposure.

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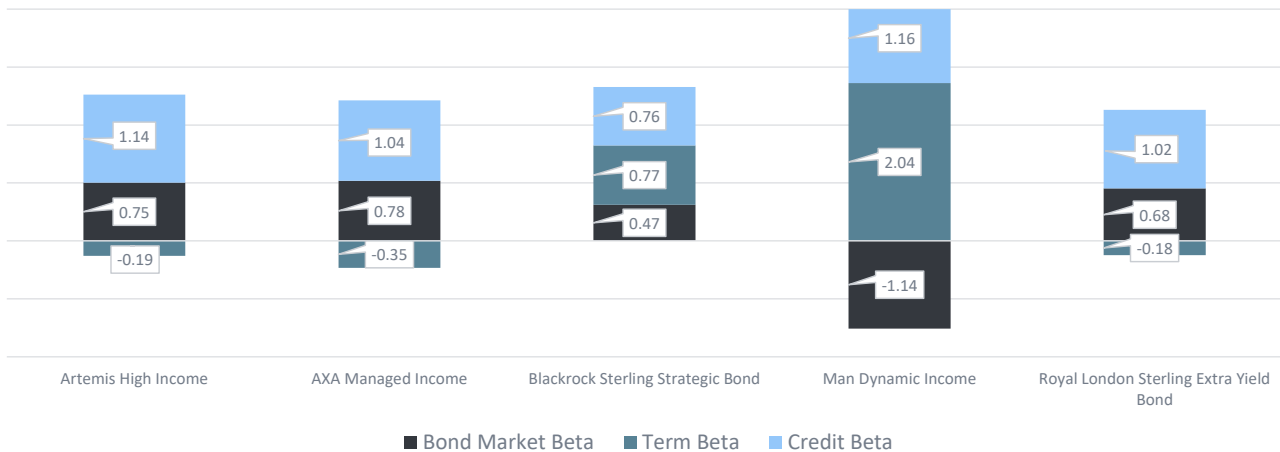
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## Fund Beta factor exposures

The charts show the Beta factor exposures that help explain each fund's performance. They are expressed as Beta sensitivities rather than returns. A Beta of 1.0 indicates that the fund's performance tends to move in 1:1 tandem with the Beta factor. A negative Beta indicates that the fund's performance tends to move in the opposite direction of the Beta factor.

### Representative expected top quartile funds Beta factor exposures



### Comments

- Expected top quartile funds maintain strong positive exposures to the Credit Beta, but divide into defensive short-duration credit strategies and active long-duration strategies.
- Artemis High Income, AXA Managed Income and Royal London Sterling Extra Yield Bond:** These strategies combine high positive Credit Beta exposure with negative Term Beta sensitivity, insulating portfolios against interest rate volatility while capturing credit yield.
- BlackRock Sterling Strategic Bond:** Maintains balanced positive exposures across Bond Market Beta, Term Beta, and Credit Beta factors.
- Man Dynamic Income:** Exhibits the highest positive Term Beta exposure in the peer group alongside strong Credit Beta sensitivity, reflecting a dynamic approach to duration management paired with corporate credit conviction. The fund is run with both long and short exposures with significant use of derivatives which explains its negative Bond Market Beta.

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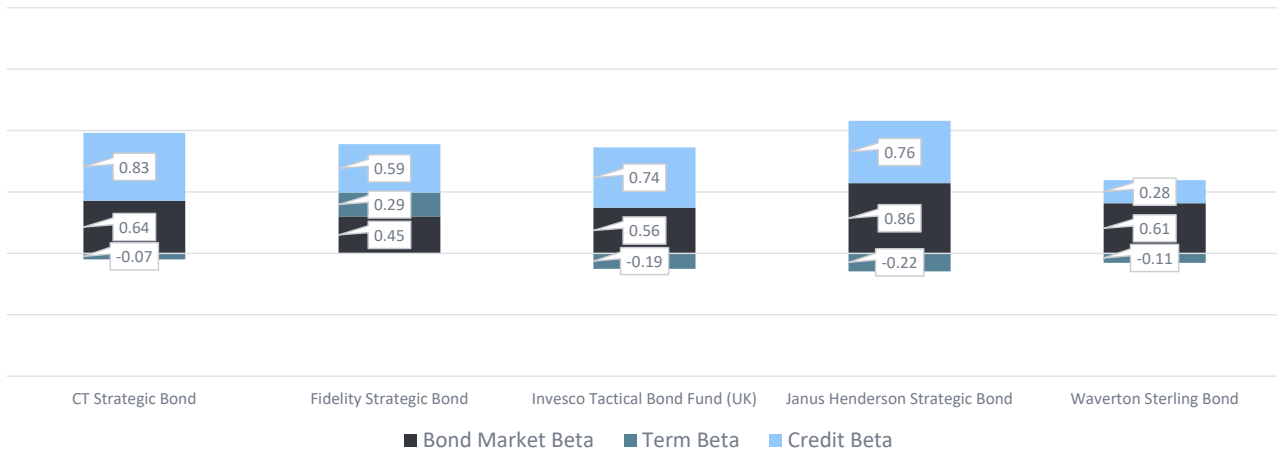
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## Fund Beta factor exposures (continued)

Representative expected bottom quartile funds Beta factor exposures



### Comment

- Expected bottom quartile funds display positive Market Beta and moderate Credit Beta exposures, but generally lack the pronounced credit tilts or duration conviction seen in the top quartile peers.
- CT Strategic Bond, Invesco Tactical Bond (UK) and Janus Henderson Strategic Bond:** These funds combine positive Market Beta and moderate Credit Beta exposures with negative Term Beta sensitivity, providing some duration defense against rising rates and modest credit upside.
- Fidelity Strategic Bond:** Features modest positive exposures from Market Beta, Term Beta, and Credit Beta, maintaining a conservative factor balance that demonstrates an investment process with tight risk limits.
- Waverton Sterling Bond:** Exhibits the lowest Credit Beta sensitivity among all analysed funds both the representative top and bottom quartiles, restricting its ability to participate in corporate credit market rallies.

## Fund time-varying Alpha from navigating changes in the business cycle

The AlphaPredictor® methodology provides the unique ability to identify managers with skills which will perform well given different but plausible economic outcomes. Time-varying Alpha is manager skill associated with navigating changes in the business cycle and is often demonstrated by sector tilts or security selection within sectors. Macro Alpha sensitivities reflect the portion of a manager's skill which is correlated (positively or negatively) with important macroeconomic variables. By pairing macroeconomic variable changes with a fund's Macro Alpha sensitivities, you can gain insights about their Alpha generation in different environments. The table below shows the **macro Alpha return contributions** and **sensitivities** of each fund to changes in important macroeconomic variables. An arrow indicating the **trend in each macroeconomic variable** is also shown.

Understanding how a fund's Alpha might be impacted as the business cycle evolves can help a fund selector pick winners and avoid funds whose Alpha may deteriorate in specific environments. The AlphaPredictor® model is an advanced learning model and it will learn over time as relationships between Alpha and macroeconomic variables evolve.

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## Representative expected top quartile funds macro Alphas and macro sensitivities

| Fund name                              | Macro Alphas and Macro Sensitivities |                     |             |               |             |              |             |                  |             |             |             |                              |             |
|----------------------------------------|--------------------------------------|---------------------|-------------|---------------|-------------|--------------|-------------|------------------|-------------|-------------|-------------|------------------------------|-------------|
|                                        | Time-varying<br>Alpha (%)            | Default Spread ↓    |             | Term Spread ↓ |             | Short Rate ↑ |             | Dividend Yield ↓ |             | Inflation ↑ |             | Leading Economic Indicator ↓ |             |
|                                        |                                      | Δ 12MMA             |             | Δ 12MMA       |             | Δ 12MMA      |             | Δ 12MMA          |             | Δ 3MMA      |             | 1-month log change           |             |
|                                        |                                      | Alpha (%)           | Sensitivity | Alpha (%)     | Sensitivity | Alpha (%)    | Sensitivity | Alpha (%)        | Sensitivity | Alpha (%)   | Sensitivity | Alpha (%)                    | Sensitivity |
|                                        |                                      | Artemis High Income | -0.09%      | 0.0%          | 0.2         | 0.0%         | -0.2        | -0.1%            | -0.2        | 0.0%        | -0.2        | 0.0%                         | 0.0         |
| AXA Managed Income                     | -0.02%                               | 0.0%                | 0.6         | 0.0%          | -0.4        | -0.1%        | -0.2        | 0.0%             | -0.3        | 0.0%        | 0.1         | 0.0%                         | -0.1        |
| Blackrock Sterling Strategic Bond      | 0.00%                                | -0.1%               | 1.2         | 0.0%          | -0.7        | 0.0%         | 0.0         | 0.0%             | -0.3        | 0.0%        | 0.2         | 0.0%                         | 0.1         |
| Man Dynamic Income                     | 0.30%                                | 0.0%                | 1.0         | -0.2%         | 3.7         | 0.6%         | 1.0         | 0.0%             | 0.3         | -0.1%       | -0.3        | 0.0%                         | -0.2        |
| Royal London Sterling Extra Yield Bond | 0.11%                                | 0.0%                | 0.8         | 0.0%          | -0.3        | 0.0%         | 0.0         | 0.0%             | -0.5        | 0.0%        | 0.1         | 0.0%                         | -0.1        |
| Peer Group Average                     | -0.08%                               | 0.0%                | 0.0         | 0.0%          | 0.3         | -0.1%        | -0.1        | 0.0%             | -0.1        | 0.0%        | 0.0         | 0.0%                         | 0.0         |

### Comments

- All representative top quartile funds have differentiated macroeconomic sensitivities than the bottom quartile funds that impact their time-varying Alpha generation across changing economic conditions.
- **Artemis High Income and AXA Managed Income:** Display negative sensitivities to tightening default spreads and flattening term spreads, resulting in time-varying Alpha drags under current conditions.
- **BlackRock Sterling Strategic Bond:** Expected to deliver zero time-varying Alpha. This may be a result of the fund maintaining tight factor risk limits in order to deliver Alpha from security selection only.
- **Man Dynamic Income:** Generates the highest positive time-varying Alpha, driven by strong positive sensitivities to rising short term interest rates and term spread movements.
- **Royal London Sterling Extra Yield Bond:** This fund delivers positive time-varying Alpha supported by positive sensitivities to rising inflation and short rates, offering robust real-income defense.

## Representative expected bottom quartile funds macro Alpha funds macro sensitivities

| Fund name                       | Macro Alphas and Macro Sensitivities |                   |             |               |             |              |             |                  |             |             |             |                              |             |      |
|---------------------------------|--------------------------------------|-------------------|-------------|---------------|-------------|--------------|-------------|------------------|-------------|-------------|-------------|------------------------------|-------------|------|
|                                 | Time-varying<br>Alpha (%)            | Default Spread ↓  |             | Term Spread ↓ |             | Short Rate ↑ |             | Dividend Yield ↓ |             | Inflation ↑ |             | Leading Economic Indicator ↓ |             |      |
|                                 |                                      | Δ 12MMA           |             | Δ 12MMA       |             | Δ 12MMA      |             | Δ 12MMA          |             | Δ 3MMA      |             | 1-month log change           |             |      |
|                                 |                                      | Alpha (%)         | Sensitivity | Alpha (%)     | Sensitivity | Alpha (%)    | Sensitivity | Alpha (%)        | Sensitivity | Alpha (%)   | Sensitivity | Alpha (%)                    | Sensitivity |      |
|                                 |                                      | CT Strategic Bond | -0.14%      | 0.0%          | 0.3         | 0.0%         | 0.3         | -0.1%            | -0.2        | 0.0%        | -0.1        | 0.0%                         | -0.3        | 0.0% |
| Fidelity Strategic Bond         | -0.17%                               | 0.0%              | 0.1         | 0.0%          | 0.3         | -0.2%        | -0.3        | 0.0%             | -0.1        | 0.0%        | -0.3        | 0.0%                         | 0.0         |      |
| Invesco Tactical Bond Fund (UK) | -0.28%                               | 0.0%              | 0.5         | 0.0%          | 0.1         | -0.2%        | -0.4        | 0.0%             | 0.1         | 0.0%        | 0.3         | 0.0%                         | 0.0         |      |
| Janus Henderson Strategic Bond  | -0.24%                               | 0.0%              | 0.0         | 0.0%          | 0.3         | -0.2%        | -0.4        | 0.0%             | -0.1        | 0.0%        | 0.3         | 0.0%                         | 0.1         |      |
| Waverton Sterling Bond          | -0.10%                               | 0.0%              | 0.3         | 0.0%          | 0.1         | -0.1%        | -0.2        | 0.0%             | 0.1         | 0.0%        | 0.3         | 0.0%                         | 0.0         |      |

### Comments

- Expected bottom quartile funds share negative time-varying Alpha skills for the prevailing economic climate reflecting misaligned macroeconomic sensitivities.
- **CT Strategic Bond Fund, Invesco Tactical Bond (UK) and Janus Henderson Strategic Bond:** Suffer negative time-varying Alphas due to positive sensitivities to a tightening default spreads and flattening term spreads, which are an Alpha drag. The largest Alpha drag comes from each funds' negative sensitivity to rising short term interest rates.
- **Fidelity Strategic Bond:** Generates negative time-varying Alpha as negative sensitivities to rising short rates and flattening term spreads weigh on performance during monetary tightening cycles.
- **Waverton Sterling Bond:** Experiences negative time-varying Alpha primarily due its negative sensitivities to short term interest rates which have been trending upward. The fund has a negative sensitivity to default spreads which will benefit the fund if credit risk increases.

## GLOSSARY

### Beta risk factors

- Bond Market Beta – Bloomberg Sterling Aggregate Bond Index
- Term Beta – UK Gilt 7-10 year returns minus UK Gilt 1-3 year returns
- Credit Beta – UK Corporate Bond returns minus UK Gilt returns

### Alpha

- All-weather Alpha – Fund manager security selection skill which is independent from the business cycle
- Time-varying Alpha – Fund manager skill from dynamically timing industries and sectors over the business cycle. Macroeconomic state variables such as the default spread, term spread, short interest rate, dividend yield, inflation, and economic sentiment can be used to identify funds likely to generate superior performance.

### Macroeconomic state variables

- Default spread – The difference between the yield on global investment grade corporate bonds and global treasury bonds. It is a measure of credit risk and stresses in the financial system. It is counter-cyclical tending to widen in recessions and shrink in expansions.
- Term spread – The difference between global long and short-term government bond yields. Academic research has found it to be a predictor of economic growth as well as turning points in the economy.
- Short rate – The yield on short-term global government bonds. Short term interest rates are linked to monetary policy. Falling short term interest rates have been associated with rising stock and bond markets in subsequent periods. Higher short rates may signal reduced capital investment by firms as well as lower consumption in the economy.
- Dividend yield – The dividend yield on a broad index of UK equities. A measure of relative equity valuations. It is counter-cyclical tending to widen in recessions and shrink in expansions
- Inflation – UK CPI harmonized with the EU which tracks prices across a wide range of common items including food, energy, housing, and transport.
- OECD Leading Economic Indicator – A composite indicator for UK economic growth

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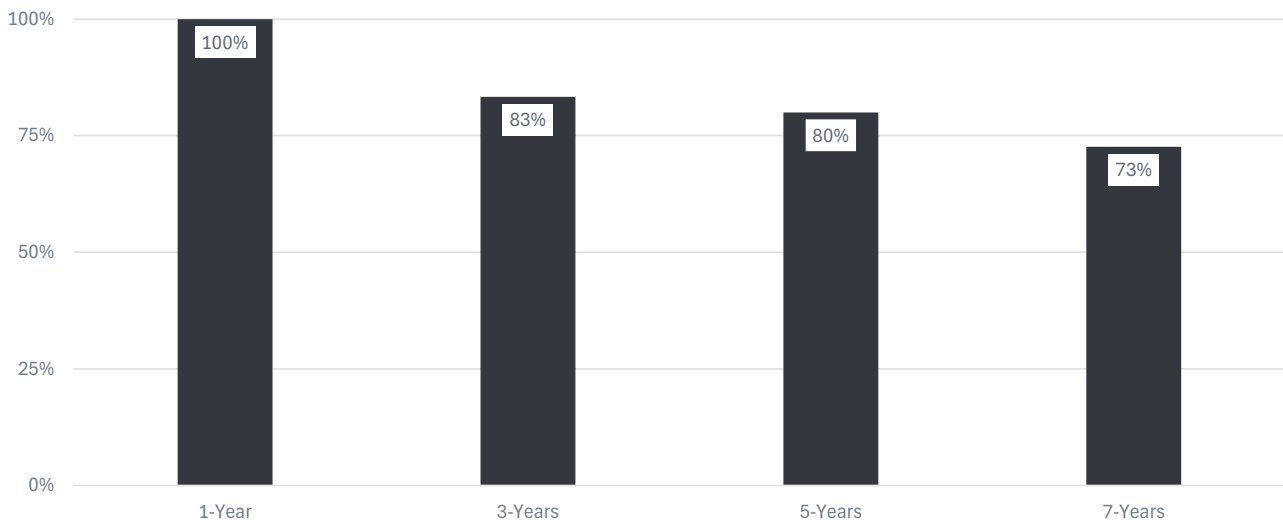
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## Quantifying the Predictive power of the AlphaPredictor® forward-looking rankings for the Sterling Strategic Bond peer group

We calculated the performance of the top quartile predicted 3-month ahead funds versus the bottom quartile predicted funds over the last seven years ending August 2026 and then looked at the consistency of the outperformance of the top versus bottom quartile funds ranked by 3-month expected returns. The chart below shows the frequency of outperformance over 3-, 12-, 36-, 60- and 84-month periods.

Percentage of times that the top quartile predicted funds outperformed bottom quartile predicted funds



## How to use the AlphaPredictor® Insights report

The report highlights five funds from the top and bottom quartile of expected Alpha funds over the coming 3-months for a specific peer group. It breaks down the key drivers of each fund's performance due to important risk factor exposures including Bond Market Beta, Term Beta, Credit Beta, and Alpha. An important differentiator of AlphaPredictor® is its ability to breakdown each fund's Alpha generating capabilities into all-weather (idiosyncratic) skills associated with security selection and time-varying skills associated with navigating changes in the business cycle and often exhibited through sector tilts. Time-varying skills are correlated with important macroeconomic variables and understanding which stage of the business cycle we are in and how skilful a manager is given current or future economic conditions can provide key insights into understanding how a manager and fund are likely to perform.

The AlphaPredictor® Insights report provides advisers with a view about which funds are likely to perform well or poorly in the current environment. If advisers already recommend or use these funds, it can help explain how the fund selection truly adds value to the end investors. Otherwise, advisers can consider whether they want to switch funds – especially since different fund manager skills may work better given the changes in business cycle or specific economic conditions.

## Subscription services

Advisers can also subscribe to the AlphaPredictor® as a service and get more:

- Detailed report on the Alpha and Beta contributions to expected performance of specific fund(s), including how changes in macroeconomic variables will affect them. This can be a health check on current funds in the clients' portfolios or to find new funds.
- Cost effective tools that help advisers and wealth managers to build fund buy-list objectively, together with other fund research tools if needed.

For more sophisticated wealth managers and advisers, we can provide regular AlphaPredictor® dataset for their quantitative analysts and fund research team.

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