

# Fixed Income strategies: Bridging the gap between quantitative and fundamental approaches



**Jean-Marie Dumas**  
Head of Fixed Income  
Solutions – Amundi  
Asset Management

**Bonds market faced low rates since many years. And they probably won't rise up soon. Clients' needs for diversification and current market conditions (in addition to low rates, i.e. increase of bonds issuers) drove the path towards new solutions engineering. "Listening to our clients, observing the market and experiencing our econometric models were keys when building this new range" says Jean-Marie Dumas, Head of Fixed Income solutions at Amundi. "High yield laid behind us. We had to provide a serious alternative to traditional judgmental fixed income strategies", he adds.**

## Using both traditional and alternative risk factors

Amundi's working paper "Traditional and alternative factors in investment grade corporate bond investing"<sup>1</sup> highlights that factor investing in the credit space remains more of a marketing proposition than an innovative investment strategy when tests are performed on proposed alternative risk factors disregarding their interaction with traditional risk factors (duration-times-spread, liquidity and duration). Nevertheless, by amending specifications for new alternative risk factors in the Investment Grade corporate bond market and integrating them alongside traditional risk factors into a multi-factor framework, Amundi has developed a unique approach to factor investing.

The investment philosophy is clear: combining pure systematic rules-based strategies with Amundi's long-dated models embedded in Fixed Income team

fundamental bond picking. Each month, the team rebalances bond portfolios if appropriate. "Yes, we add a human touch in the pipe, necessary to better control portfolio turnover and optimise performance. When you deal with rules-based models, you have to be sure that prices reflected in the model match market prices. The final portfolio is the pragmatic translation of what the model is saying" Jean-Marie Dumas reckons.

## Two different investment approaches

The new range of systematic rules-based strategies relies on two legs. A factor-investing approach and a model-driven investing approach. The model-driven investing approach is similar to quantitative strategies –i.e. identify a regular-alpha pattern- but the goal is different: "The difference with strategies we saw 15 years ago, is risk management. The trade allocation varies between carry and spread tightening; it is a risk parity approach first" explains Jean-Marie Dumas. The factor-investing approach offers both Value and Multi-factors funds. "Alternative factors are trendy in the market; every asset manager is keen to use them, and often play many factors at the same time" says Jean-Marie Dumas. "We decided not to bring face to face traditional factors to alternative ones. Instead, we asked: how to use alternative factors as a complementary feature to the traditional ones? Which factors would bring additional interest to our fixed income portfolios?" he explains.

## A long-term position for a plain servicing experience

The 2008 crisis significantly changed the paradigm for fixed income investing. Prior to it, European institutional investors were able to rely on sovereign core and peripheral debt to fulfil their return expectation. Now with quantitative easing program, integrating alternative risk factors into a traditional bond investing approach will be critical for investors trying to capture the entirety of bond return. Amundi's fixed income solutions serve clients with a high level of transparency, robustness, commitment to risk control and provision of tools to better understand the portfolio responses under different market conditions. One interesting note to point out

is that the model is consistent in both euro and dollar.

Within these investment frameworks, Amundi is able to apply specific filters in a tailored-mandate, such as ESG (Environmental, Social, Governance) criteria for example. Additional service can also be operated such as data management. "Talking about investment grade credit means capturing very small market movements over long time periods, so crunching a big amount of data. We have the knowledge and experience to handle data quality management and may accompany our clients in that area as well", says Jean-Marie Dumas.

Talking about horizon, Amundi's position stays long-term: "We have designed a range which is consistent over time with a long-term investment horizon. We can play opportunistic factors if they better explain the market trends and only if they generate alpha but it does not constitute our global approach. We are disciplined on our models buildings and portfolio intentions which is the result of a collegial work, research and analyses" concludes Jean-Marie Dumas.

## FOOTNOTE

<sup>1</sup> Traditional and alternative factors in investment grade corporate bond investing, a study dated as of March 2019 by Mohamed Ben Slimane, Marielle de Jong, Jean-Marie Dumas, Hamza Fredj, Takaya Sekine and Michael Srb and available on research-center.amundi.com.

**Traditional and Alternative  
Factors in Investment Grade  
Corporate Bond Investing: a  
working paper by Amundi to go  
further on the topic.**



**Amundi**  
ASSET MANAGEMENT