



Quoniam High Yield MinRisk Global

Exploiting opportunities—
Reducing risks

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High yield markets consist of a diverse range of issuers. Investors require a strategy that captures the opportunities in the higher quality buckets, whether fallen angels or rising stars, while avoiding the issuers heading for downgrades and defaults. Quoniam Global High Yield MinRisk is a short duration strategy that combines active security selection, portfolio diversification and the low-risk anomaly to give investors access to the attractive segments of the high yield market while reducing risk.

The main task of a high yield bond manager is to separate promising issuers with upside potential from overvalued high-risk names and default candidates. But how can this be achieved in a universe as large and heterogeneous as the global high yield market? Our research shows that high risk is not always rewarded in high yield markets, while investments in the middle of the risk spectrum (the

so-called sweet spot) generate the highest returns. Moreover, by forecasting performance based on scientific factors such as value, momentum, quality and carry, systematic risk premia can be earned by minimising default risk. A short-duration focus limits the draw-downs from rising interest rates and widening spreads, providing investors a risk-reduced entry into the global high yield markets.

The Quoniam solution

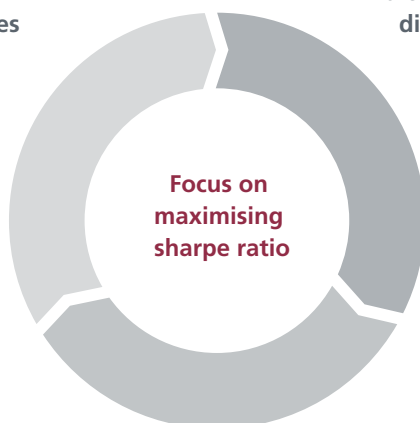
Our MinRisk approach is designed to target the sweet spot of the high yield market and systematically reduce concentration risk. By avoiding high individual issuer and sector risks, we significantly improve diversification compared to a standard index.

To achieve a higher risk-adjusted return, we also exploit existing capital market anomalies. One such anomaly is the well-known low-volatility anomaly, which shows that, contrary to classical capital market theory, lower risk does not necessarily mean lower returns. MinRisk stands for strict risk management independent of index characteristics and diversification across multiple risk dimensions.

The strategy is driven by a focus on maximising the Sharpe Ratio. Portfolio management is focused on increasing risk-adjusted performance independent of a benchmark.

Exploitation of anomalies

Multidimensional diversification



Active security and risk selection
(Multi-factor model)

Source: Quoniam Asset Management GmbH

Our approach:

1. Use of anomalies

Quoniam High Yield MinRisk Global strategy makes use of scientifically based anomalies. The first is the spread anomaly. This means that the spread determines the risk but not the expected return. Historically, bonds with very high spreads deliver lower risk-adjusted performance because their probability of default is very high. Similarly, bonds with low credit spreads relative to their peers tend to lag the market. In contrast, selected high yield bonds with medium risk have yield advantages.

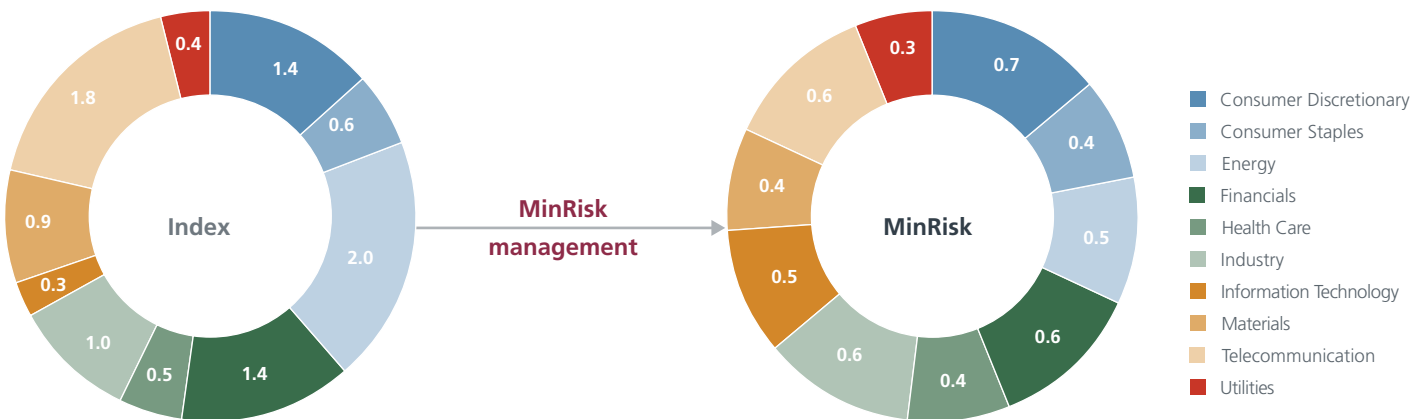
The duration anomaly states that short-term bonds tend to have lower volatility, but historically this has been associated with higher risk-adjusted returns. In other words, the return per unit of risk is usually higher than for longer-dated bonds. In contrast, for longer-dated IG bonds, the higher spread does not adequately compensate for the cumulative higher probability of default.

2. Multidimensional diversification

Classic credit indices tend to have high issuer and sector concentrations. It is not uncommon for 10% of the index constituents to account for around 50% of the index volume, with highly indebted issuers more prominently represented in the index. This is particularly important in the riskier part of the credit universe that high-yield bonds represent. Being too close to a high yield benchmark inevitably leads to defaults and the associated losses. Quoniam High Yield MinRisk Global avoids these problems in several ways:

- **Sector risk parity:** The strategy aims to achieve a more balanced risk contribution by sector compared to traditional high yield benchmarks. While consumer goods account for more than a third of a traditional benchmark, our strategy has a much lower weighting. Similarly, while financials play a minor role in high yield benchmarks, we manage to have a more meaningful weighting in this sector.

Balanced diversification of sectors



Values in duration multiplied by spread (DTS). Source: Intercontinental Exchange, Inc., Quoniam Asset Management GmbH; as of May 2025

- **Issuer allocation:** There are maximum position limits in the funds, ranging from 0.4% to 1% depending on the credit rating of the issuer. Diversification is particularly important in high yield, where issuer-specific risks are greater than in investment grade. Typical high yield portfolios are therefore made up of more than 250 issuers to minimise idiosyncratic risk.
- **Currency allocation:** While global high yield markets are heavily tilted towards USD investments, the strategy also extensively covers and includes EUR-denominated high yield issues.
- **Interest rates:** High yield issuers have shorter maturities on average than investment grade issuers. At the same time, spread risks are higher in high yield than in investment grade. During economic crises, falling interest rates and rising credit spreads are negatively correlated, providing a source of diversification.

3. Active bond selection and risk management (multi-factor model)

We use our proprietary multi-factor forecasting model to allocate securities. The advantage is that the model uses the factor approach to decompose the behaviour of a bond into systematic risk premia factors. These hidden sources of return and risk often cannot be identified with traditional discretionary strategies.

Historically, the strategy has demonstrated these strengths. During the trade conflict in 2018, the Corona crisis or the difficult year 2022 with high inflation and the war in Ukraine, our approach was able to significantly cushion the losses compared to a standard global high yield index. Volatility was reduced by around 25% on average. Moreover, there has not been a single default since the strategy was launched in June 2016.

Key figures

ESG: All Quoniam mutual funds apply an integrated ESG approach. Individual client guidelines can be implemented in mandates.

Conclusion

Reduced risk:

The Quoniam High Yield MinRisk Global strategy offers investors a risk-reduced entry into the high yield corporate bond market.

Improved risk/return ratio:

The strategy uses scientific evidence to improve risk-adjusted returns.

Increased diversification:

The benchmark agnostic approach helps to avoid concentration risks and diversify portfolios across multiple dimensions.

More sources of return:

Implementing bond selection through the multi-factor quantitative forecasting model enables a daily valuation of the entire global universe, which can enhance returns.

Better drawdown protection:

The High Yield MinRisk strategy has proven its added value in various crises and has mitigated losses.

Contact

Quoniam Asset Management GmbH
Westhafen Tower · Westhafenplatz 1
60327 Frankfurt am Main

A member of Union Investment Group

T +49 69 74 384 0
www.quoniam.com
info@quoniam.com

Author



Sebastian Dudziak

Portfolio Manager Fixed Income

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Contact

Quoniam Asset Management GmbH · Westhafen Tower, Westhafenplatz 1
60327 Frankfurt am Main · Tel +49 69 74384-www.quoniam.com

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