

Fund Insight

Invesco Bond Income Plus (BIPS)

Proceeding With Caution

May 2025 | Winterflood Research | researchcontact@winterflood.com

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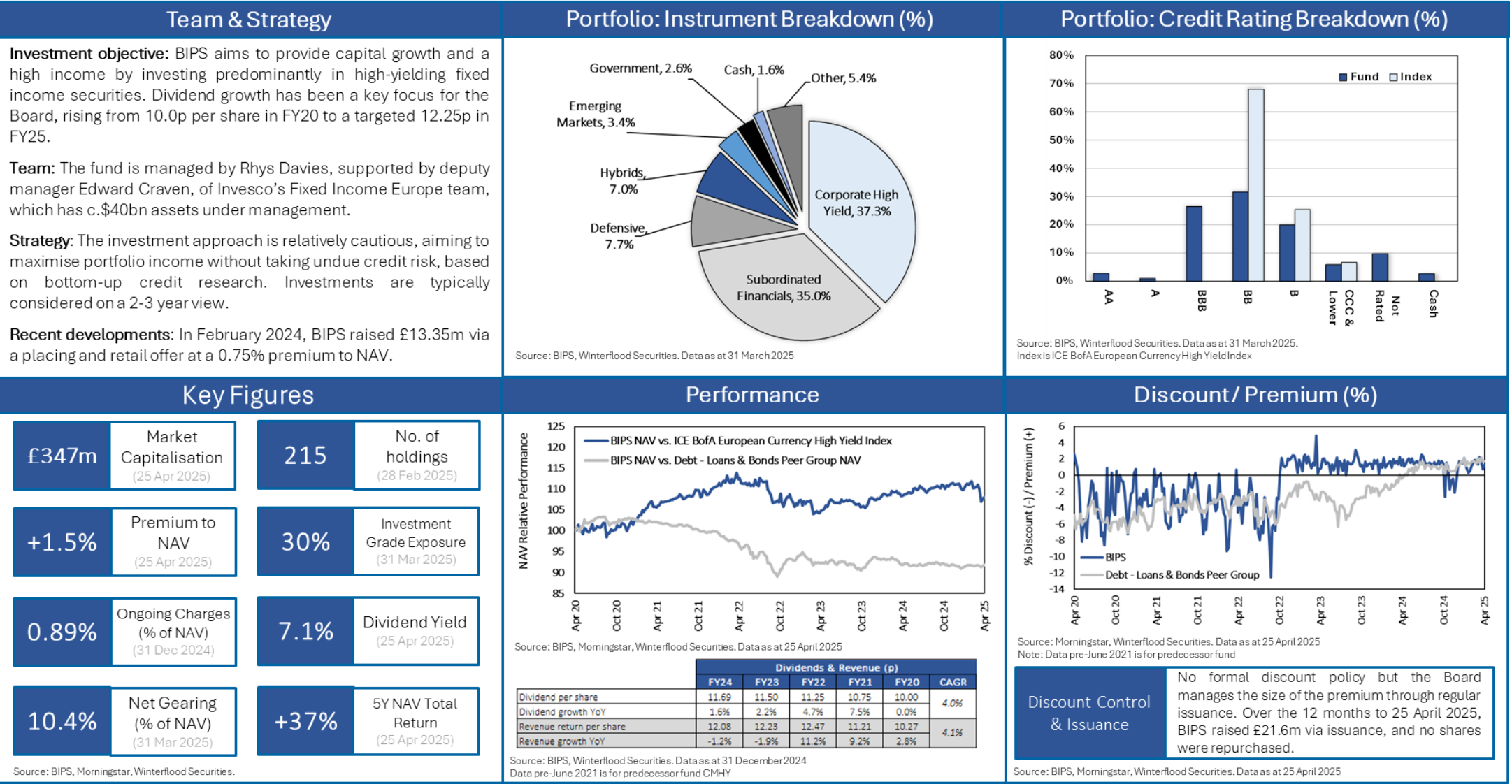
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The report is based on factual information which is being provided for general information purposes only.

Please follow this [link](#) to our Important Information page, highlighting some of the key risks and disclosures regarding investments covered in this report.

Dashboard



Note: Past performance is not a reliable indicator of future results

For more detail on sector-specific terminology, see our [Fixed Income Primer](#)

Our Insight

Challenges:



Economically Sensitive: Any sustained economic weakness across the markets to which BIPS is exposed is likely to have a stronger negative impact on the fund's High Yield portfolio than would be the case for a purely Sovereign or Investment Grade allocation.

Default Contagion: If corporate default rates increase substantially over the next few years – for example due to elevated borrowing costs or a credit freeze – there is a natural risk of a significant sell-off in the High Yield market. The managers have increased the portfolio's credit quality to mitigate this probability, but its impact will be dependent on market conditions.

Premium Rating: Given that the shares are trading above their 5-year average rating, a shift in market sentiment may negatively impact shareholder returns independent of portfolio performance. This is particularly relevant in the absence of a downward discount control commitment from the Board.

Use of Leverage: Gearing will exacerbate any losses experienced in the portfolio, and therefore the managers' judgement in this regard is critical.

Advantages:

Fixed Rate Exposure: Over time, the portfolio's fixed rate exposure should be comparatively better off than floating rate peers if benchmark rates remain on a downward trajectory.

Defensive Adjustments: The managers are keenly aware of credit risk in the market, hence the portfolio's increased credit quality and consistent diversification across issuers to mitigate risk.

Sterling Exposure: With only 2% US Dollar exposure and 3% Euro exposure (post hedging), the portfolio largely insulates shareholders from global FX volatility.

Well-Resourced Team: The managers are part of a large team with substantial credit analysis resources. Their experience of running multi-billion institutional portfolios informs their decision-making on BIPS.

Increasing Scale: While the shares are trading on a premium to NAV, this enables accretive issuance, enhancing scale, driving down costs and potentially attracting a wider array of investors.

Use of Leverage: Active use of gearing makes good use of the investment trust structure and augments portfolio income.

Our Insight:

Sensible Caution: In our view, the managers' cautious approach is rational, given the uncertainty posed by geopolitical turmoil and global trade frictions. Portfolio changes over time have measurably increased income and simultaneously decreased credit risk. Therefore, BIPS may be a suitable vehicle for investors looking to gain exposure to the High Yield market, taking into consideration the risk of credit spreads widening amid US economic policy volatility.

Rate Cut Beneficiary: Given that the portfolio has predominantly fixed rate exposure and relatively high duration, we believe that it is well-positioned to benefit from the market's base case scenario of interest rate reductions this year.

Analytical Approach: The team has substantial resources available, and the managers are nimble enough to take advantage of emerging opportunities or pivoting out of long-held positions. The foundational focus on credit research is particularly important in the High Yield market, and we believe that this could enable the fund to outperform comparator indices should defaults remain contained.

Contents

[Team & Strategy](#) 5

[Portfolio](#) 7

[Performance, Dividends & Rating](#) 13

[Peer Group](#) 16

[Outlook & Insight](#) 20

[Appendix: Fixed Income Primer](#) 23

[Glossary & Disclaimer](#) 27

Team & Strategy

The background features a dark blue gradient with two large concentric circles. The space between these circles is filled with a pattern of small, bright blue dots that form a wavy, grid-like structure, creating a sense of depth and movement.

Team & Strategy



Background: Invesco Bond Income Plus (BIPS) is the result of the May 2021 merger between two investment trusts, City Merchants High Yield (CMHY) and Invesco Enhanced Income (IPE), with BIPS being a continuation of the former.



Objective: To seek capital growth and high income by investing predominantly in high-yielding fixed income securities. Instruments used to attain this goal include High Yield corporate debt and Subordinated Financials debt (more detail [here](#)).



Team: Rhys Davies has been the lead manager for BIPS (and CMHY pre-merger) since July 2020, supported by deputy manager Edward Craven. Rhys was previously a named manager on both CMHY and IPE since 2014. The managers are part of Invesco's Fixed Income Europe team, which has \$41.5bn assets under management, and comprises 13 fund managers and 17 analysts. Rhys Davies and Edward Craven (co-)manage strategies with assets of c.£4.4bn and c.£2.1bn, respectively.



Dividend: Following the 2021 merger, the quarterly dividend was increased from 2.50p to 2.75p (11.0p per annum) per share, with the annual dividend having also been increased in each subsequent year. In December 2024, the Board announced a dividend target of 12.25p per share for 2025.



Philosophy & Process: The investment approach is relatively cautious, aiming to maximise portfolio income without taking undue credit risk, based on bottom-up credit research, and supported by team resources. Investments are typically considered on a 2-3 year view, in terms of the issuer's ability to afford structurally higher borrowing costs and withstand a tougher economic environment, but can be held to maturity.



Risk Management: In general, the managers believe that High Yield investors must be decisive to take advantage of opportunities, but given the level of yield available across markets, they see limited reasons for taking on particularly high-risk exposure, such as distressed credits and special situations. Although there are some floating rate bonds held, these are not a core feature of the portfolio, as the managers consider them as presenting additional risk compared with fixed rate bonds. Currency exposure is monitored daily and may be hedged using forward contracts.



Gearing: Use of gearing may range up to 30% of gross assets, with the level set depending on market conditions and the managers' expectations of bond pricing dynamics. Rhys Davies views the use of gearing as a key benefit of the investment trust structure, enhancing revenue returns. The preferred method of gearing is through repurchasing ("repo") agreements, pledging securities in exchange for short-term funding. Net gearing was 10.4% of NAV as at 31 March 2025.

The Managers Say:

"Using gearing in a prudent way makes good use of the investment trust structure"

Portfolio

The background features a dark blue gradient. A large, lighter blue circle is centered on the page. Overlaid on the left side of this circle is a complex, wavy pattern of small, light blue dots that form a series of concentric, undulating rings, creating a sense of depth and movement.

Portfolio: Characteristics



Key Metrics: As at 28 February 2025, the portfolio yield to maturity was 7.8% (higher than the ICE BofA European Currency High Yield Index, see adjacent table), the portfolio current yield was also 7.8% (higher than the index), the portfolio weighted average price was 96.4 (lower than the index) and the modified duration was 3.99 (higher than the index). *See the following pages for additional detail.*



Concentration: The portfolio tends to be diversified across c.150 issuers. As at 28 February 2025, 215 securities of 148 issuers were held, with exposure to the top 10 issuers representing 22.6% of NAV.



Sector Weightings: Issuers are predominantly Banks (31% of NAV as at 31 March 2025) and Insurers (8%), followed by Automotive (7%), Utilities (6%), Telecoms (4%) and Gaming (4%).



FX Exposure: Currency exposures as at 31 March 2025 were to Sterling (61% of NAV), US Dollar (24%) and Euro (14%). After accounting for hedging in place, currency exposures were Sterling (95%), Euro (3%) and US Dollar (2%).



Instruments: The largest instrument allocations in the portfolio as at 31 March 2025 were to High Yield Corporate Bonds (37%), Subordinated Financials (35%), Corporate Hybrid Debt (7%) and Investment Grade Corporate Bonds (5%). Government bonds accounted for 3% of NAV. *See the following pages for additional detail.*



Credit Quality: Investment Grade-rated instruments (BBB and higher) were 30% of NAV as at 31 March 2025, while High Yield (BB and below) was 57%, 10% was unrated, 2.2% was held in cash and 0.5% was in equities. *See the following pages for additional detail.*

	Fund	Index
Number of holdings	215	753
Current Yield	7.8%	5.3%
Yield To Maturity	7.8%	5.9%
Weighted average price	96.4	98.5
Years to Maturity	7.0	3.7
Duration	4.14	2.67
Modified Duration	3.99	3.18

Source: BIPS as at 28 February 2025

Note: 'Index' is ICE BofA European Currency High Yield Index

Top Issuers			
Issuer	Industry	Country	% of Portfolio
Lloyds Banking Group	Financials	UK	3.1%
Barclays	Financials	UK	2.7%
UK Treasuries	Government	UK	2.5%
Aviva	Financials	UK	2.2%
Co-Operative Bank	Financials	UK	2.2%
Virgin Money	Financials	UK	2.1%
EDF	Utilities	France	2.1%
Thames Water Finance	Utilities	UK	2.0%
Ineos	Industrials	UK	1.7%
BNP Paribas	Financials	France	1.6%
Total			22.2%

Source: BIPS as at 31 March 2025

The Managers Say:

“We have exposure to 150 issuers, so if one does go wrong, we benefit from this diversification”

Portfolio: Instruments



We provide a summary of the types of instruments the fund utilises, and explain their characteristics. *For additional detail, please see the [Fixed Income Primer](#).* The managers classify their portfolio allocations as follows:

Corporate High Yield (37% of NAV as at 31 March 2025): High Yield corporate bonds are the fund's core allocation, offering exposure to debt issued by companies that have credit ratings below BBB, selected based on bottom-up credit research.

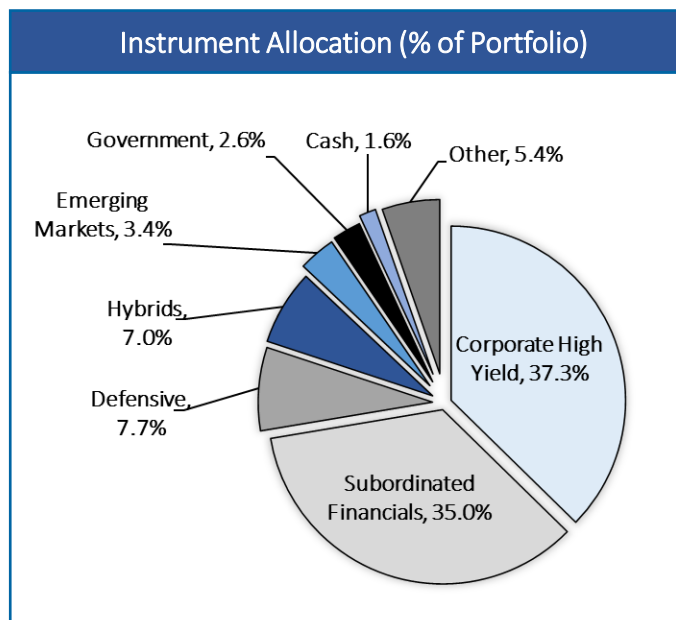
Subordinated Financials (35% of NAV): Consisting primarily of Additional Tier 1 (16%) and Tier 2 (11%) Bank regulatory capital, Tier 1 Insurance regulatory capital (5%) and Insurance subordinated debt (3%). Regulatory capital refers to debt issued to satisfy regulatory requirements, offering a comparatively high yield as it may be mandatorily written down or converted into equity in certain, pre-defined circumstances.

Defensive (8% of NAV): Consisting of Investment Grade corporate bonds (5%) and senior Bank debt (3%). This allocation is expected to have low default rates and low price volatility, and is varied according to the managers' risk appetite and market conditions.

Hybrids (7% of NAV): Consisting of corporate hybrid subordinated bonds, often perpetual and/or callable. Coupons are generally comparatively high, but could be suspended or deferred.

Emerging Markets (3% of NAV): Consisting of High Yield corporate bonds (3%) and quasi-sovereign exposure (0.4%). As at 31 March 2025, this allocation had exposure to counterparties in Mexico, Brazil, South Africa and Ghana.

Government (3% of NAV): Consisting of UK Gilts, a UK Inflation-Linked Gilt and a 10-year Treasury bond, purchased for duration management and as a risk-off hedge. These allocations tend to be a shorter-term component of the portfolio, when the available yield is considered relatively attractive.



Source: Winterflood Securities, BIPS as at 31 March 2025

Portfolio: Credit Ratings



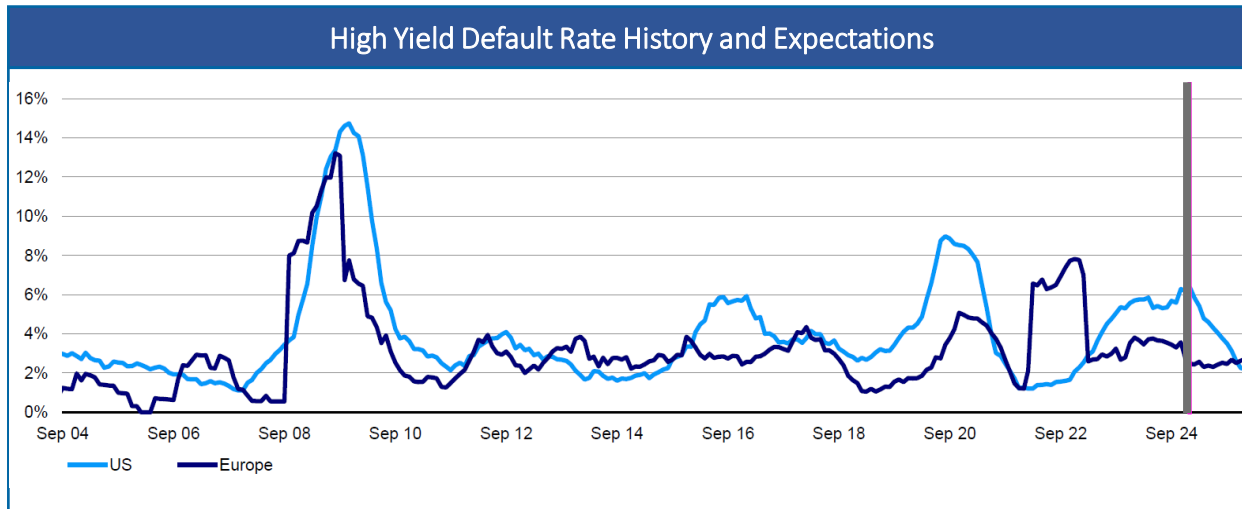
Credit Ratings: Portfolio holdings are mainly concentrated in the BBB-B spectrum. This aligns with, but is of higher quality than, the BB concentration of the ICE BofA European Currency High Yield index. Investment Grade rated securities (BBB and higher) made up 30% of NAV as at 31 March 2025, one of the highest levels seen in a number of years.



Portfolio Changes: In recent years, the portfolio's allocation to CCC-rated and unrated securities has declined, while Investment Grade holdings have increased to one of the highest levels seen in over five years. The managers have noted that the degree of yield in the market implies that attractive returns can be generated while taking less credit risk.



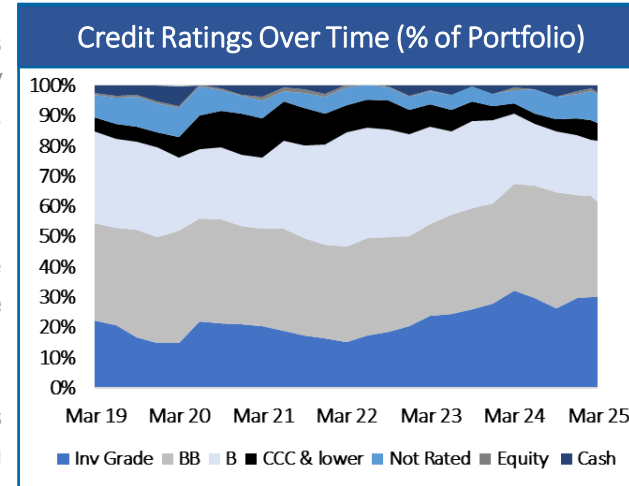
Default Rates: The primary purpose of credit ratings is to assess the likelihood of default. As per the chart below, the High Yield default rate across global markets has trended between 2%-4% historically. The US default rate was relatively high over 2024, with many issuers opting for 'amend and extend' negotiations rather than a full restructuring. In this context, the managers continue to prefer cautious positioning.



Source: Moody's, via BIPS as at 31 January 2025

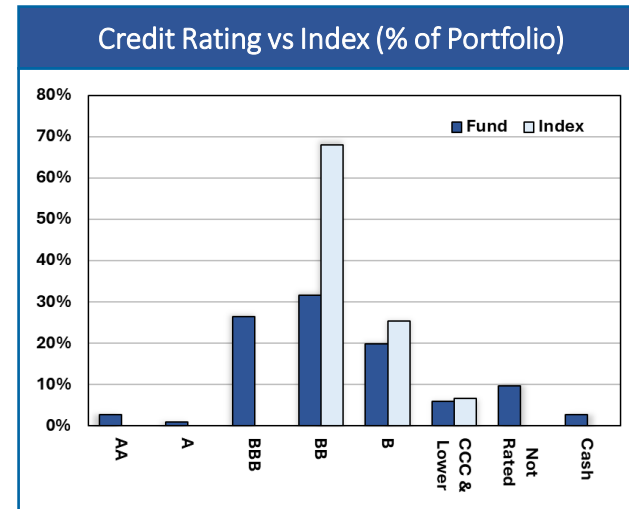
Note: Data after 31 January 2025 (represented by grey vertical line) is Moody's baseline forecast

Invesco Bond Income Plus: Proceeding With Caution (May 2025)



Source: Winterflood Securities, BIPS as at 31 March 2025

Note: Data pre-June 2021 is for predecessor fund City Merchants High Yield (CMHY)



Source: Winterflood Securities, BIPS as at 31 March 2025

Note: 'Index' is ICE BofA European Currency High Yield Index

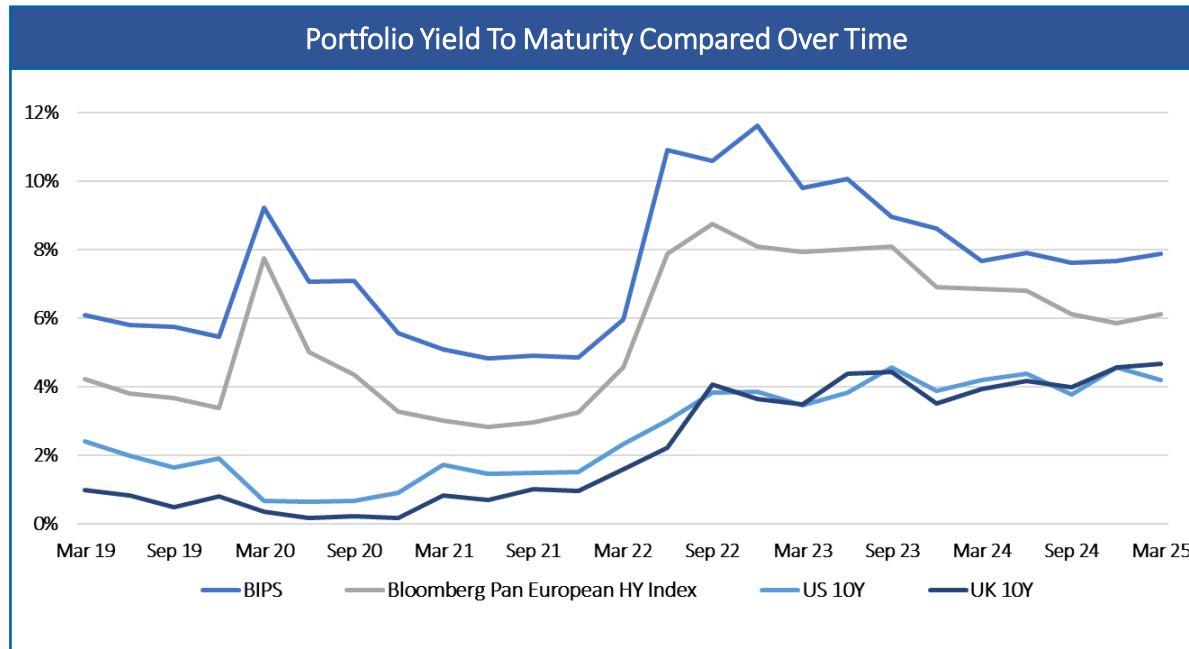
Portfolio: Yield



Yield Comparison: The portfolio Yield to Maturity (YTM) has increased over recent years, from a low of 4.8% in mid-2021, peaking at 11.6% at the end of 2022 and standing at 7.9% at 31 March 2025. For comparison, the chart below also shows the yield to maturity for the Bloomberg Pan European High Yield Index, the UK 10-year yield and the US 10-year yield. As High Yield bond prices rose further over 2024, the YTM declined, but it remains ahead of the index and the risk-free rate.



Keep In Mind: We note that the portfolio YTM may differ from the current yield, as it presumes that the debt is held to maturity (*for more details, see our [Fixed Income Primer](#)*). Furthermore, we note that the yield earned by the portfolio (whether measured as current yield or YTM) is not the same as the revenue return for the fund overall, which takes gearing into account and has timing differences. The revenue return is used to calculate dividend cover, which is covered in the [Dividends section](#) of this report.



Source: Winterflood Securities, BIPS, Bloomberg as at 31 March 2025

The Managers Say:
 “Bonds are still offering a lot more yield today than a few years ago”

Portfolio: Example Holdings

Below are examples of current bond holdings, reflective of the different risk profiles across BIPS' portfolio. The managers aim to create a portfolio of a variety of bonds, with all contributing to the income target.



Illiquid but Attractive: BIPS invested in the initial issue of the [Newcastle Building Society £ 12.25% 2034](#) bond in June 2024. The instrument is not rated and the issue size was very small, at just £20m, with BIPS owning £4.5m of this, leading to poorer secondary market liquidity. As such, the managers highlight that the bond is not necessarily appropriate for larger funds but is ideally suited to the closed-ended investment trust structure. The managers are comfortable with the credit risk, following due diligence, and view the 12.25% coupon as highly attractive and reflective of an illiquidity premium due to the issue's small size.

Other similar investment examples include [Atom Bank £ 11.5% 2029](#) and [Saffron Building Society £ 12.5% 2029](#), which are also very difficult for most investors to access and are unlikely to be found in open-ended funds.



Traditional High Yield: An example of a more traditional high yield bond holding is the [INEOS Quattro \\$ 9.625% 2029](#) instrument, which was issued in November 2023 and is rated BB-. The Invesco Fixed Income team has a very long history with INEOS Group and a strong relationship with the company's management team. As such, the BIPS managers are confident that the company is able to effectively manage a balance sheet and navigate volatile markets. The coupon of 9.625% is viewed as attractive, particularly relative to the coupon of 3.375% that was offered on a similar bond issued by the same business in 2021, with the higher rate required reflective of the market shift in recent years.



High Yield Credit from Investment Grade Issuers: BT is a large, blue chip company but the [BT £ 8.375% 2028](#) bond is the firm's most junior debt instrument and is therefore rated as 'High Yield', albeit at the top end of the spectrum (BB+). When this bond was issued in June 2023, inflation was proving stickier than expected and Fixed Income had experienced a significant re-pricing in 2022, which meant that even high-quality companies such as BT had to offer higher coupons.

Other similar holdings, which offer reasonably high coupons from Investment Grade or Investment Grade-like issuers, include [Vodafone £ 8% 2031](#) and [EDF € 7.5% 2028](#).



Traditional Investment Grade: Since the bond re-pricing 2022, BIPS is able to invest in good quality, Investment Grade rated bonds with a decent level of yield, and does not need to take on too much risk in the rest of the portfolio to meet its dividend targets. An example is [Ford £ 6.86% 2026](#), which the managers are happy to keep in the portfolio until expiry. Other examples include [Hammerson £ 5.875% 2036](#), where the position was topped up at a lower price during the bond market volatility in January this year, and [EDF £ 6% 2114](#), which is seen as a good opportunity to add duration to the portfolio and was purchased "*well below par*".

The Managers Say:

"We want a good mixture of bonds in the portfolio, with all of them contributing towards the income / dividend target"

The background features a dark blue gradient with a large, lighter blue circular ring. Inside the ring, on the right side, is a pattern of small blue dots that form a wavy, tunnel-like shape.

Performance, Dividends & Rating

Performance & Dividends

Note: Past performance is not a reliable indicator of future results



Track Record: Over the five years to 25 April 2025, the fund delivered a NAV total return of +37% and a share price total return of +35%, compared with +27% for the ICE BofA European Currency High Yield Index and +49% for the Debt - Loans & Bonds peer group.



Market Conditions: Naturally, macro market factors such as interest rates, default rates and banking sector stress have a significant impact on BIPS' performance, given its portfolio composition. The managers pay close attention to these factors to position the portfolio for resilience, as well as to take advantage of opportunities that they view as mispriced. Benchmark interest rate increases have driven an increase in the portfolio current yield from 6% in 2021 to 7.8% as at 31 March 2025.

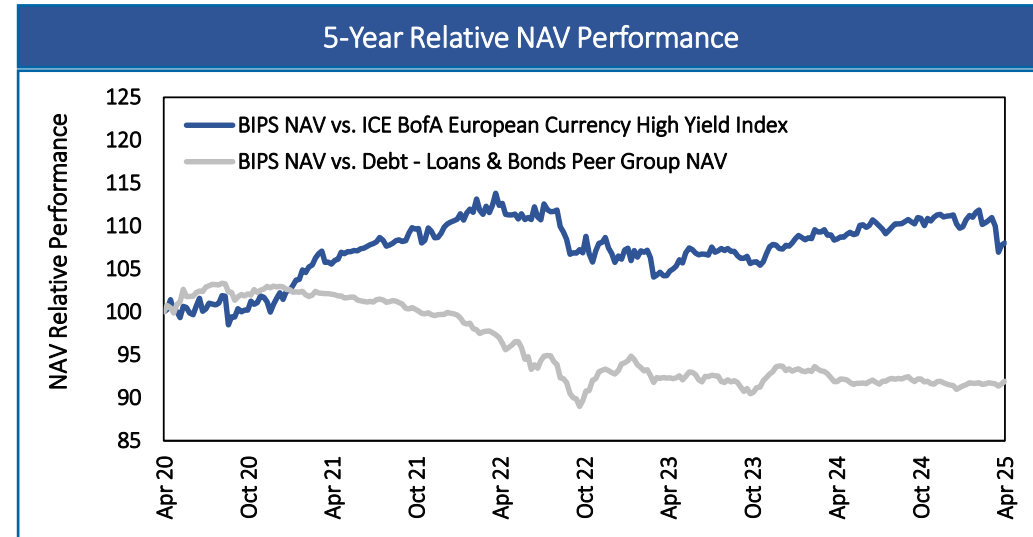


Drivers: After major market interest rates plateaued in the previous year, 2024 continued to see a benign defaults environment, aided by strong corporate earnings. In this context, riskier bonds generally outperformed higher quality instruments, and the largest contributions to performance came from subordinated Financials and High Yield, while bank debt and Hybrid bonds contributed as well. Detractors were idiosyncratic in nature, spanning a variety of sectors, and included Thames Water, which is restructuring.



Dividends: Over the last five years, the fund has consistently paid a dividend that was covered by its revenue per share, growing at a +3.2% compound annual growth rate (CAGR) over this period. The annualised target dividend for the 3-year post-merger period to June 2024 was 11.0p, and this has thus far been exceeded. In December 2024, the Board announced a dividend target for FY25 of 12.25p per share. This represented a 7.3% prospective yield on the share price as at 25 April 2025.

Invesco Bond Income Plus: Proceeding With Caution (May 2025)



Source: Winterflood Securities, Morningstar as at 25 April 2025

	Total Return (£)						
	YTD	2024	2023	2022	2021	2020	2019
BIPS (NAV)	0.8%	8.5%	11.6%	-10.7%	5.3%	6.8%	13.4%
BIPS (Share Price)	0.2%	8.8%	10.5%	-5.2%	4.2%	1.8%	18.7%
ICE BofA European Currency High Yield Index	4.1%	4.4%	10.1%	-6.9%	-2.4%	8.1%	6.0%
Debt - Loans & Bonds Peer Group (NAV)	0.4%	11.0%	10.5%	-3.8%	8.5%	2.7%	7.2%

Source: Winterflood Securities, Morningstar as at 25 April 2025

	Dividends & Revenue (p)					CAGR
	FY24	FY23	FY22	FY21	FY20	
Dividend per share	11.69	11.50	11.25	10.75	10.00	4.0%
Dividend growth YoY	1.6%	2.2%	4.7%	7.5%	0.0%	
Revenue return per share	12.08	12.23	12.47	11.21	10.27	4.1%
Revenue growth YoY	-1.2%	-1.9%	11.2%	9.2%	2.8%	

Source: BIPS, Winterflood Securities as at 31 December 2024

Note: Data pre-June 2021 is for predecessor fund City Merchants High Yield (CMHY)

Note: Past performance is not a reliable indicator of future results

Rating



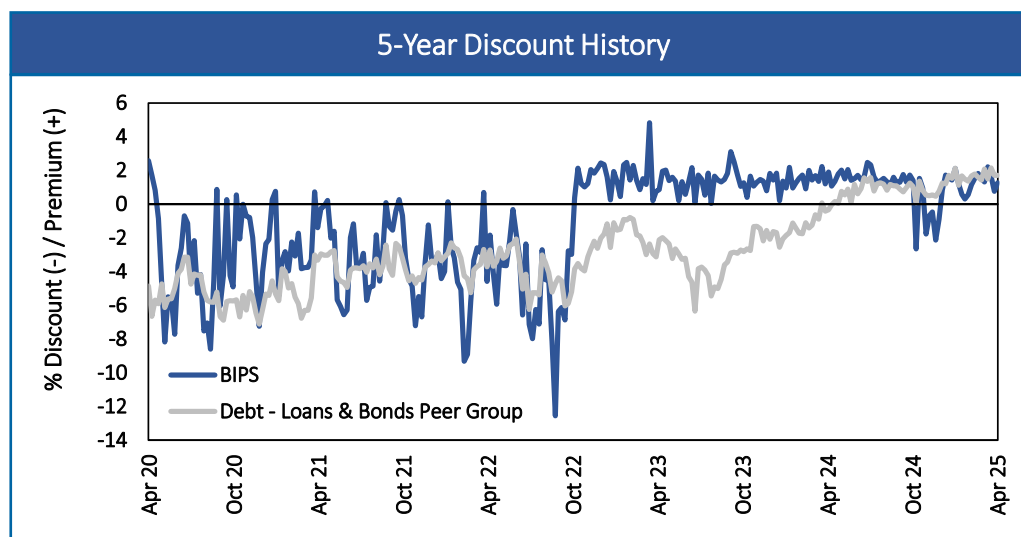
Rating: The fund's shares traded on a +1.5% premium as at 25 April 2025, compared with a 1-year average premium of +1.2% and a 5-year average discount of -1.1%. This compares to a current Debt – Loans & Bonds peer group weighted average premium of +1.7%. Predecessor fund City Merchants High Yield (CMHY) regularly traded on a premium, and the period 2020-2022 in which BIPS' shares traded on a discount coincided with substantial macroeconomic uncertainty coupled with record-low benchmark interest rates.



Discount Control: While there is no formal discount control policy in place, the Board manages the size of the premium through regular issuance. The fund has historically not tended to repurchase shares while trading on a discount.



Issuance & Buybacks: BIPS traded on an average +1.2% premium over 2024, and issued 21.7m shares over the period, raising £36.9m, including a placing and retail offer in February, which raised £13.3m. Over the five years to 25 April 2025, the fund has issued 37.5m shares, raising £63.3m (excluding issuance in connection with the CMHY-IPE merger).



Source: Winterflood Securities, Morningstar as at 25 April 2025

Note: Data pre-June 2021 is for predecessor fund City Merchants High Yield (CMHY)

Peer Group

The background features a dark blue gradient with two large, concentric circles. The inner circle is a slightly darker shade of blue. On the left and right sides, there are decorative elements consisting of a grid of small, bright blue dots that form a wavy, tunnel-like pattern, creating a sense of depth and movement.

Peer Group: Composition



In addition to BIPS, the **Debt – Loans & Bonds** peer group consists of mandates with the following investment objectives:

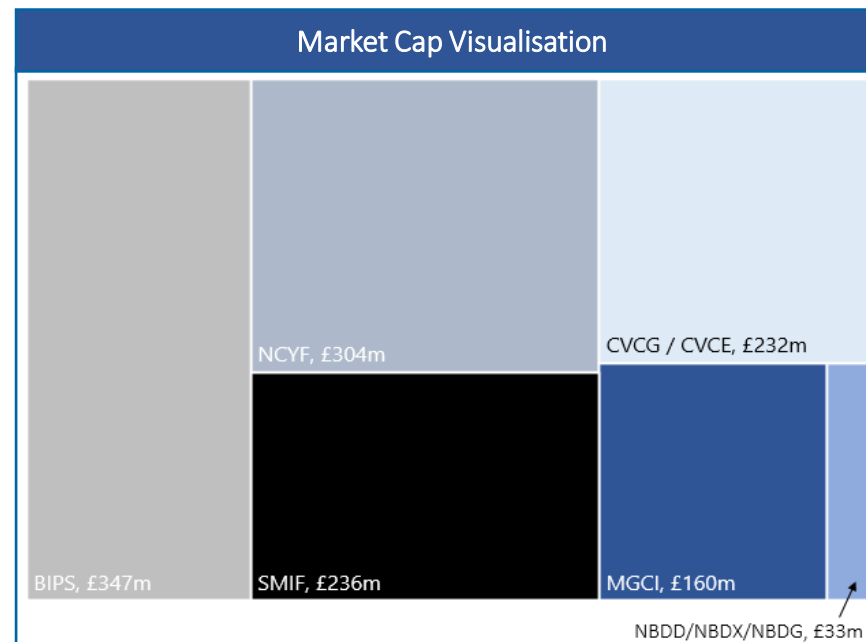
CQS New City High Yield (NCYF): Provide a high dividend yield and the potential for capital growth by mainly investing in high yielding fixed income securities.

CVC Income & Growth* (CVCG/CVCE): Preserve capital and generate a high cash income via a stable and attractive dividend, as well as offer the potential for capital appreciation, by investing in European sub-investment grade credit.

M&G Credit Income* (MGCI): Generate a regular and attractive level of income with low asset value volatility by investing in a diversified portfolio of public and private debt and debt-like instruments, of which at least 70% will be investment grade.

NB Distressed Debt (NBDD/NBDX/NBDG): Own holdings diversified across distressed, stressed and special situations investments, with a focus on senior debt backed by hard assets; all three share classes are in realisation.

TwentyFour Select Monthly Income (SMIF): Generate attractive risk-adjusted returns, principally through income distributions, by investing in a diversified portfolio of fixed income credit products.



Source: Winterflood Securities, Morningstar as at 25 April 2025

* Denotes a corporate client of Winterflood Securities

Peer Group: Metrics



Size: BIPS has the largest market cap in the peer group (£347m as at 25 April 2025).

Rating: As at 25 April 2025, BIPS was one of five funds in the peer group trading on a premium to NAV (+1.5%), broadly in line with the weighted average rating (+1.7%).

Yield: As at 25 April 2025, BIPS had the sixth highest 12-month trailing dividend yield in the peer group (7.1%).

Net Issuance¹: BIPS is one of five funds in the peer group that have, on a net basis, raised capital through issuance over the 12 months to 25 April 2025, with net issuance equivalent to 6.1% of the current market capitalisation.

Cost: BIPS has the lowest ongoing charges ratio in the peer group (0.89% of NAV as at 31 December 2024).

Ticker	Name	Sector	Premium (+) / Discount (-)	Average Premium (+) / Discount (-)	Z-Score	Market Capitalisation	Dividend Yield	Gearing (+) / Net Cash (-)	Net Issuance	Ongoing Charges
			(NAV)	12m	12m	(£m)	12m	%NAV	12m	%NAV
BIPS	Invesco Bond Income Plus*	Debt: Loans & Bonds	1.5%	1.2%	0.2	347	7.1%	10.4%	6.1%	0.9%
NCYF	CQS New City High Yield	Debt: Loans & Bonds	6.6%	6.1%	0.8	304	8.8%	10.0%	8.8%	1.2%
CVCG	CVC Income & Growth*	Debt: Loans & Bonds	0.9%	0.1%	0.5	160	8.1%	-1.0%	10.2%	1.8%
CVCE	CVC Income & Growth (€)*	Debt: Loans & Bonds	-4.4%	-4.5%	0.1	72	7.2%	-1.0%	-9.0%	1.8%
MGCI	M&G Credit Income*	Debt: Loans & Bonds	1.6%	0.9%	0.4	160	8.8%	-0.5%	13.5%	1.3%
NBDD	NB Distressed Debt (\$) ^	Debt: Loans & Bonds	-18.5%	-21.5%	2.1	7	0.0%	-66.5%	0.0%	1.0%
NBDG	NB Distressed Debt - Global Class ^	Debt: Loans & Bonds	-37.4%	-43.9%	0.8	7	0.0%	-34.6%	-22.3%	1.3%
NBDX	NB Distressed Debt - Extended Class (\$) ^	Debt: Loans & Bonds	-27.3%	-37.9%	1.1	19	0.0%	-32.5%	-14.2%	1.0%
SMIF	TwentyFour Select Monthly Income	Debt: Loans & Bonds	2.1%	2.2%	-0.1	236	8.8%	-1.7%	11.6%	1.2%
	Average	Debt: Loans & Bonds	-8.3%	-10.8%	0.6	146	5.4%	-13.0%	0.5%	1.3%
	Weighted Average	Debt: Loans & Bonds	1.7%	1.1%	0.4		8.0%	3.5%	7.8%	1.3%

Source: Winterflood Securities, Morningstar as at 25 April 2025

* Denotes a corporate client of Winterflood Securities

^ Denotes a fund in (proposed) wind-down, realisation or rollover

¹ Net share issuance (net share buybacks if negative) over the last 12 months as a percentage of starting share capital, including tender offers and returns of capital.

Peer Group: Performance



NAV Total Return: As at 25 April 2025, BIPS had the fourth-best NAV total return in the peer group over the last 12 months, and the sixth best over the last 3 and 5 years, although it was the worst performer over the 3-year and 5-year periods based on funds not in managed wind-down.

Share Price Total Return: As at 25 April 2025, BIPS had the seventh best share price total return in the peer group over the last 12 months, and the sixth best over the last 3 years and 5 years.

			NAV Performance (Total Return)						Price Performance (Total Return)					
Ticker	Name	Sector	1M	3M	6M	1Y	3Y	5Y	1M	3M	6M	1Y	3Y	5Y
BIPS	Invesco Bond Income Plus*	Debt: Loans & Bonds	-1%	0%	2%	7%	14%	37%	-1%	0%	2%	7%	20%	35%
NCYF	CQS New City High Yield	Debt: Loans & Bonds	-1%	0%	1%	7%	22%	71%	-1%	-1%	1%	6%	19%	67%
CVCG	CVC Income & Growth*	Debt: Loans & Bonds	-2%	-1%	2%	11%	35%	85%	-4%	-2%	3%	14%	48%	119%
CVCE	CVC Income & Growth (€)*	Debt: Loans & Bonds	-2%	-2%	4%	12%	32%	79%	-2%	-3%	7%	11%	35%	104%
MGCI	M&G Credit Income*	Debt: Loans & Bonds	0%	1%	3%	7%	20%	39%	0%	1%	4%	15%	23%	40%
NBDD	NB Distressed Debt (\$) ^	Debt: Loans & Bonds	-3%	-2%	-4%	-7%	-10%	4%	0%	0%	0%	0%	-14%	-17%
NBDG	NB Distressed Debt - Global Class ^	Debt: Loans & Bonds	1%	-2%	-3%	-14%	-8%	-13%	-25%	-2%	22%	12%	4%	-28%
NBDX	NB Distressed Debt - Extended Class (\$) ^	Debt: Loans & Bonds	-3%	-3%	-5%	-11%	7%	27%	-4%	-4%	29%	32%	27%	33%
SMIF	TwentyFour Select Monthly Income	Debt: Loans & Bonds	-2%	0%	3%	12%	25%	68%	-2%	-1%	3%	12%	25%	54%
	Average	Debt: Loans & Bonds	-1%	-1%	0%	3%	15%	44%	-4%	-1%	8%	12%	21%	45%
	Weighted Average	Debt: Loans & Bonds	-1%	0%	2%	8%	22%	58%	-2%	-1%	3%	10%	25%	60%
	Bloomberg Global Aggregate Treasuries Index (Hedged)	Debt: Loans & Bonds	1%	2%	2%	6%	4%	-3%	1%	2%	2%	6%	4%	-3%
	FTSE All-Share Index	Debt: Loans & Bonds	-2%	0%	3%	7%	24%	71%	-2%	0%	3%	7%	24%	71%

Source: Winterflood Securities, Morningstar as at 25 April 2025

* Denotes a corporate client of Winterflood Securities

^ Denotes a fund in (proposed) wind-down, realisation or rollover

Note: Past performance is not a reliable indicator of future results

Outlook & Insight

The background features a large, dark blue circle. Inside this circle, on the left side, is a wavy, dotted pattern in a lighter blue color. The dots are arranged in a series of concentric, slightly offset rings, creating a sense of depth and movement. The overall aesthetic is modern and tech-oriented.

Managers' Outlook



Defensively Positioned: BIPS' allocation to Investment Grade securities is at one of the highest levels seen in a number of years (c.30% as at 31 March 2025). Following the significant re-pricing in the bond market in 2022, Investment Grade as an asset class could once again be considered a yield product. As such, the managers are able to invest in good quality, Investment Grade rated bonds with a decent level of yield, and do not need to take on too much risk in the rest of the portfolio to meet the dividend target. In addition, they are currently aiming to position the portfolio more cautiously because of the potential for economic weakness, especially given significant geopolitical uncertainty.



Ideal Structure: The managers note that they use the flexibility of the investment trust structure to set the dividend target, utilise gearing, invest without worrying about potential outflows, and venture into less liquid parts of the market. During the tariff-induced market volatility in early April 2025, the managers selectively added to or initiated positions in bonds that had seen particular weakness, using cash, increasing gearing slightly and selling some Investment Grade bonds to take advantage of these opportunities. They are willing to increase gearing further to take advantage of additional opportunities in the event of more volatility, which they expect to continue to be a theme in the near term.



Relatively Tight Spreads: Bonds are viewed as still offering an attractive level of income compared with a few years ago, but European High Yield credit spreads are relatively tight at present, meaning that there is less extra compensation for investors taking on more risk in terms of credit quality. The managers note that 2023 and 2024 were strong periods of performance for the High Yield market, and therefore entered 2025 thinking that the market was potentially set up for a correction. Spreads did widen during the tariff-related volatility but have since partially recovered, and remain tight compared to longer-term averages. This implies potential for further widening (i.e. High Yield bond prices falling, increasing their yields and thereby widening the gap between these yields and 'risk-free' rates).



Default Risk: Global market forecasts at the beginning of the year were for a relatively low level of defaults in 2025, but the managers of BIPS think that caution is warranted regarding the challenges that companies will face when refinancing at a higher cost of debt that has been the case in previous years. In addition, recession risks have increased in light of tariff introductions, which would negatively impact default rates, although the risk is unclear given changing rhetoric from the US President. However, significant analysis is conducted before corporate bonds are added to the portfolio, and the managers are focusing on companies that they believe can withstand short-term consumer weakness in a potential recession.

The Managers Say:
“The permanent capital nature of the investment trust structure is ideal for a fund manager”

Our Insight

Challenges:



Economically Sensitive: Any sustained economic weakness across the markets to which BIPS is exposed is likely to have a stronger negative impact on the fund's High Yield portfolio than would be the case for a purely Sovereign or Investment Grade allocation.

Default Contagion: If corporate default rates increase substantially over the next few years – for example due to elevated borrowing costs or a credit freeze – there is a natural risk of a significant sell-off in the High Yield market. The managers have increased the portfolio's credit quality to mitigate this probability, but its impact will be dependent on market conditions.

Premium Rating: Given that the shares are trading above their 5-year average rating, a shift in market sentiment may negatively impact shareholder returns independent of portfolio performance. This is particularly relevant in the absence of a downward discount control commitment from the Board.

Use of Leverage: Gearing will exacerbate any losses experienced in the portfolio, and therefore the managers' judgement in this regard is critical.

Advantages:

Fixed Rate Exposure: Over time, the portfolio's fixed rate exposure should be comparatively better off than floating rate peers if benchmark rates remain on a downward trajectory.

Defensive Adjustments: The managers are keenly aware of credit risk in the market, hence the portfolio's increased credit quality and consistent diversification across issuers to mitigate risk.

Sterling Exposure: With only 2% US Dollar exposure and 3% Euro exposure (post hedging), the portfolio largely insulates shareholders from global FX volatility.

Well-Resourced Team: The managers are part of a large team with substantial credit analysis resources. Their experience of running multi-billion institutional portfolios informs their decision-making on BIPS.

Increasing Scale: While the shares are trading on a premium to NAV, this enables accretive issuance, enhancing scale, driving down costs and potentially attracting a wider array of investors.

Use of Leverage: Active use of gearing makes good use of the investment trust structure and augments portfolio income.

Our Insight:

Sensible Caution: In our view, the managers' cautious approach is rational, given the uncertainty posed by geopolitical turmoil and global trade frictions. Portfolio changes over time have measurably increased income and simultaneously decreased credit risk. Therefore, BIPS may be a suitable vehicle for investors looking to gain exposure to the High Yield market, taking into consideration the risk of credit spreads widening amid US economic policy volatility.

Rate Cut Beneficiary: Given that the portfolio has predominantly fixed rate exposure and relatively high duration, we believe that it is well-positioned to benefit from the market's base case scenario of interest rate reductions this year.

Analytical Approach: The team has substantial resources available, and the managers are nimble enough to take advantage of emerging opportunities or pivoting out of long-held positions. The foundational focus on credit research is particularly important in the High Yield market, and we believe that this could enable the fund to outperform comparator indices should defaults remain contained.



Appendix: Fixed Income Primer

Fixed Income Primer

What are Fixed Income securities?

Fixed Income is a broad asset class containing a range of securities, the most common of which is a traded bond. In essence, they are a form of debt, with borrowers issuing Fixed Income instruments in exchange for cash; the borrower is then usually required to pay periodic interest on known dates to the investor (lender) over the life of the instrument, as well as repaying in full the amount they initially received upon a specified date of maturity. They generally provide returns in the form of regular interest payments (**coupons**) and repayment of **principal** at **maturity** (although there are some exceptions to this, such as **perpetual bonds**, which never repay principal).

Who can issue them?

Bonds and loans are issued by governments, companies, international organisations and other entities to finance their operations. Structured products may aggregate numerous underlying pools of debt into tradeable securities.

What are their key characteristics?

Unlike equities, Fixed Income securities do not provide investors with an ownership interest in a company, but they do offer a **seniority** of claim relative to equities in the event of bankruptcy or **default** (i.e. bondholders will be repaid before shareholders). There are also different levels of seniority across different types of bonds, depending on where they rank in the **capital structure**. They can provide investors with a predictable cashflow and diversification from equities and other asset classes; while there is less potential upside from Fixed Income versus equity investment, there is less downside risk due to the seniority of claim and the commitment to repay **principal** at **maturity**.

Coupon payments

Fixed Income securities usually pay a **coupon** (interest rate), expressed as the percentage of the **principal/par value** on an annual basis. For example, for a bond with a par value of 100p that pays annual coupons of 4p, the coupon rate is 4% ($4p/100p = 4\%$). Coupons may be paid monthly, quarterly, semi-annually or annually. In general, Fixed Income securities pay a higher coupon the longer their maturities as borrowers are willing to pay more interest in return for being able to borrow money for a longer period of time and investors demand higher rates to commit their money for longer.

Most bonds pay fixed rate coupons (as per the previous example) but, despite their name, some Fixed Income securities pay floating, or variable, rate coupons, tied to a benchmark rate, such as SONIA (Sterling Overnight Index Average) or SOFR (Secured Overnight Financing Rate). Some instruments also pay a mix of these types of coupon, starting with fixed payments and switching to floating at some specified date. There also exist zero-coupon bonds, which do not pay any coupons but do repay the principal amount at maturity, and are sold at a discount to par value in replacement of a coupon.

Fixed Income Primer

Maturity and Duration:

The **maturity** of a debt instrument is the length of time until expiry, with the **principal** usually repaid at the end of this term. Maturities commonly range from a month to 30 years. Instruments may also be callable (or redeemable), whereby the issuer can choose to repay the principal and cease **coupon** payments before the maturity date. The commonly used term '**duration**', is not synonymous with maturity, but its calculation often aligns with maturities.

What are the risks?

The risk profile of a Fixed Income instrument depends on the credit risk of the underlying issuer(s) and its position in the **capital structure**. Credit risk is the risk of **default**, i.e. when an issuer fails to pay the **coupon** or **principal**. In a 'restructuring' situation, only partial payment recovery is expected. Instruments with greater credit risk tend to pay a higher yield to compensate investors for this risk. Credit rating agencies aim to assess an issuer's creditworthiness, both in general and for a particular debt instrument. Debt securities (or issuers) can be broadly classified as '**Investment Grade**' (less risk) or '**High Yield**' (more risk). The three main ratings agencies are S&P Global, Moody's and Fitch Ratings. The adjacent table shows a breakdown of credit ratings.

Credit Rating			
S&P Global	Moody's	Fitch Ratings	
AAA	Aaa	AAA	Investment Grade
AA	Aa	AA	
A	A	A	
BBB	Baa	BBB	
BB	Ba	BB	High Yield (Speculative Grade / Junk)
B	B	B	
CCC	Caa	CCC	
Below CCC	Below Caa	Below CCC	

Source: Winterflood Securities, S&P Global, Moody's, Fitch Ratings

How are they priced?

Fixed Income securities are generally issued at **par value**, but can be bought and sold in the secondary market at any price. Many debt securities are publicly traded on exchanges, but may also be unlisted. The **running yield** is the annual **coupon** expressed as a percentage of the current price of the bond. If a bond is trading at a price below the par value, the yield will be higher than the coupon rate and vice versa; there is an **inverse correlation between price and yield**. For example, a bond with a par value of 100p that pays annual coupons of 4p has a coupon rate of 4%; if this bond trades in the secondary market at a price of 80p, the yield will be 5% ($4p/80p = 5\%$), so a fall in price corresponds to a rise in yield. A bond's **yield to maturity** rises or falls depending on its market value and how many payments remain.

Bond prices may rise or fall for many reasons, including a change in perceived credit risk. Benchmark interest rates set by central banks are another key factor; as they rise, an existing fixed coupon may be rendered comparatively less attractive, causing investors to sell those instruments and reinvest elsewhere. Those sales lower bond prices and therefore increase their yield. The sensitivity of a debt security to a change in market interest rates is referred to as '**duration**'. The duration of a bond is primarily affected by its coupon rate, yield and remaining time to maturity; duration will be higher the lower the coupon, the lower the yield and the longer the maturity.

Another way to assess Fixed Income pricing is by calculating the difference ('spread') between a security's yield and a benchmark interest rate, generally taken to mean 10-year Treasury yields or similar. The higher risk an issuer or instrument is, the higher the spread over the 'risk-free' benchmark rate will be.

Note: **Highlighted** terms are defined in the [Glossary](#)

Fixed Income Primer

Examples of Fixed Income instruments

- ✓ **Bonds:** Debt issued by companies or governments, securitised as tradable instruments and usually listed on an exchange.
- ✓ **Convertible Bonds:** Debt securities issued by companies that may be converted into equity. Conversion may be triggered by events or at the discretion of the bondholder or the issuer.
- ✓ **Hybrid Bonds:** Subordinated securities with both debt and equity characteristics. Typically issued by non-Financial companies. These instruments are often perpetual and/or callable. Coupons are generally comparatively high, but could be suspended or deferred.
- ✓ **Loans:** Borrowing agreement between two parties, usually with a fixed repayment date and fixed or floating interest payments. Loan agreements are not usually listed or easily tradeable.
- ✓ **Money Market Instruments:** Short-term financing instruments that can be easily converted to cash, including certificates of deposit, commercial paper, sovereign debt and repurchase agreements.
- ✓ **Regulatory Capital:** Debt instruments issued by Financial corporates (Banks and Insurers) to satisfy their regulatory requirements. Most prominently these include Additional Tier 1 (AT1) securities, which are perpetual and callable convertible contingent debt instruments (“CoCo’s”), serving to increase loss absorption capacity within the banking system.
- ✓ **Structured Products:** Securitisation of underlying assets, typically offering regular payments derived from underlying cashflows. Examples include:
 - **Asset-Backed Securities (ABS):** Debt securities backed by a collection of financial assets, such as credit card receivables or auto loans. Each ABS security includes only fractions of underlying assets that are pooled as a single instrument, diversifying risk. Securitised instruments are typically split into tranches, structured to present different levels of seniority, credit risk and return profiles.
 - **Residential Mortgage-Backed Securities (RMBS):** ABS securities backed by a pool of residential mortgages or home equity loans.
 - **Collateralised Loan Obligations (CLOs):** ABS securities backed by a pool of corporate loans.

For more, please refer to the Corporate Finance Institute (CFI) [Fixed Income resource page](#)

Glossary & Disclaimer

Glossary

Fixed Income Terminology:



- ✓ **Capital Structure:** The composition of a company's debt and equity.
- ✓ **Credit Spread:** The difference in yield between two debt securities with the same maturity but different credit quality, usually used to compare the yields of corporate bonds to risk-free alternatives such as Treasury notes.
- ✓ **Coupon:** The annual amount of interest paid on a debt instrument.
- ✓ **Default:** When the issuer of a debt instrument fails to make interest or principal payments within the specified period.
- ✓ **Duration:** A measure of the sensitivity of the price of a Fixed Income security to a change in interest rates. **Modified Duration** is a formula that expresses the change in the value of a bond in response to a 1% change in interest rates.
- ✓ **Maturity:** The date when a debt instrument's principal is repaid.
- ✓ **Par Value / Principal / Face Value:** The amount of money that the issuer promises to repay holders of Fixed Income securities at maturity.
- ✓ **Perpetual Bond:** A debt security with no maturity date.
- ✓ **Pull to Par:** The movement of a debt instrument's price towards its par value as it approaches its maturity date.
- ✓ **Secured / Unsecured Debt:** Secured debt instruments provide a lenders with a direct claim on specific assets in the event of default, while unsecured lenders only a general claim on borrowers' assets. Therefore, secured lenders will be paid first in the event of default.
- ✓ **Seniority:** The order of repayment in the event of a borrower's bankruptcy. Debt further down the capital structure has lower payment priority and is therefore higher risk; these instruments will generally have higher coupon payments to compensate for this risk. Equity holders are typically repaid last.
- ✓ **(Running) Yield:** The coupon rate expressed as a percentage of a Fixed Income security's current price.
- ✓ **Yield to Maturity (YTM):** The percentage rate of return, assuming that the investor holds the Fixed Income security until its maturity date, receiving all remaining coupon payments and return of principal at maturity.

For more, please refer to the Corporate Finance Institute (CFI) [Fixed Income resource page](#)

Glossary

Investment Trust Terminology:



- ✓ **Active Share:** The degree to which the composition of the portfolio diverges from its benchmark or reference index, expressed as a percentage of NAV.
- ✓ **Discount/Premium to NAV:** The percentage difference between the share price of an investment trust and its NAV per share. A positive difference is a Premium to NAV, while a negative difference is a Discount to NAV.
- ✓ **'Enhanced' Dividend:** Term used to describe a dividend (partially) paid from capital reserves, rather than from revenue reserves.
- ✓ **FCF Yield:** Free Cash Flow (FCF) Yield is the ratio of forecast free cash flow per share to the current share price.
- ✓ **Gearing:** The debts of a fund, used as leverage to increase exposure, expressed as a percentage of NAV.
- ✓ **NAV:** Net Asset Value, the difference between a fund's assets and liabilities.
- ✓ **Net Issuance:** In the context of this report, the term Net Issuance is used to indicate net share issuance (net share buybacks if negative) over the last 12 months as a percentage of current Market Capitalisation. Excludes issuance/buybacks resulting from IPOs, Tenders, Redemptions, Share Conversions, Consideration Shares and Treasury Share cancellations.
- ✓ **Ongoing Charges:** Annual percentage reduction in shareholder returns as a result of a fund's recurring operational expenses, assuming markets remain static and the portfolio is not traded.
- ✓ **P/E Ratio:** Price to Earnings (P/E) ratio is a company's share price divided by its earnings per share.
- ✓ **Total Return:** Investment returns over a given period, assuming any dividends paid over this period have been reinvested.
- ✓ **Z Score:** Statistical indicator of current Discount/Premium deviation from 12-month average.

For more, please refer to the Association of Investment Companies (AIC) [Glossary page](#)

Disclaimer

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Please read this information to help you understand what this material is and how you should use it

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- **Investment trusts** can use **gearing** which can offer the chance to boost the trust's profit but also **increases the risk**.

Key Links

- [Glossary of Key Terms](#)
- [AIC Guide to Investment Trusts](#)
- [Key Information Document](#) (BIPS)
- [Investor Disclosure Document](#) (BIPS)
- [Prospectus](#) (BIPS)
- [Factsheet](#) (BIPS)
- [Homepage](#) (BIPS)

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