



The opportunity of a lifetime?

Many multi-managers are unconvinced now is the time to turn to bond markets

As many investors still reel from a brutal 2008, the clarion call of the bond markets is increasingly heard by eager ears.

Industry sentiment is warming to the seemingly safe haven of fixed-income investments, as equities continue to show sharp volatility.

Bond funds have been lauded by many fund managers, and the asset class was described by one manager as offering a "once-in-a-lifetime opportunity".

Yet many multi-managers remain unconvinced now is the time to pile into the bond markets.

Gary Potter, co-head at Thames River Multi-Manager, says last year showed traditional diversification across investment managers was not good enough.

Multi-manager portfolios have to be managed "tightly

and deliberately", avoiding the pitfalls of "fads and fashions", such as the rush into commodities, Mr Potter says.

"Multi-managers are paid to deliver consistency and outperform the single managers," he adds.

On this basis, Mr Potter is cautious of the current bond craze.

"We're sceptical about the value in bonds. Corporate bonds appear to offer value, but with so many people saying it, it concerns me."

He says the market will get worse before it gets better.

"It's still log-jammed in terms of liquidity," he said.

"Investment-grade bond funds will be OK, but others will feel the pain.

"We're nibbling back at corporate bonds, but staying away from high yield."

Fatima Luis, manager of the F&C Strategic Bond fund, says credit markets are taking "the most pessimistic view", with discount levels of

roughly 20 per cent in the high-yield market.

"The reality for 2009 is unlikely to be as bad as spreads currently suggest. As such, many of these projected defaults are unlikely to occur, and there are very attractive opportunities for investors to lock into some 'once in a lifetime' yields."

She concedes the corporate bond market may not generate income until 2010 as the market recovers, but when this happens, the opportunity to add significant returns "should be huge".

Patrick McCullagh, head of European and UK credit research at Schroders, also speaks of "generational opportunities" in corporate credit.

However, he warns of the threats of liquidity, operational leverage and accounting malpractice.

"If we are aware of the threats coming, we can be

prepared to avoid the dangerous securities and invest in solid companies at extremely cheap, even once-in-a-lifetime, prices," he says.

"Living in interesting times isn't a curse."

Steven Richards, investment manager at Thesis Asset Management, says he understands the merits of pushing bonds for single managers.

He adds multi-managers are generally employing a more cautious investment strategy. "We're a bit sceptical about corporate bonds recovering this year. The market is illiquid, and there is a high level of default risk."

Many companies, he says, are negotiating refinancing deals.

"The market is entering uncharted territory. The upsides do look compelling on a three to five-year basis, but they will only manifest themselves when the liquidity returns. It's not enough to entice us at the moment."

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Multi-managers had a rude shock last year with the credit crisis, which shook their ability to produce consistent returns through tough times.

The new year presents a changing landscape, but many of the major issues of 2008 remain unresolved. The effects of company closures and the government's second big bank bail-out are also on the horizon.

It's a new year, but with the hangover from 2008 still ringing in their heads, multi-managers seem not yet ready to bet on debt.

Daniel McAllister is a freelance journalist