

TO
ATE
%

5.87
12.95
7.04
11.32
3.19
10.50
3.44
10.50

7.61
1.73
0.72
-4.53
5.55
-17.29
2.64
-6.82
4.87
3.72
9.72
4.95
8.44

7.96
7.12
11.03
1.08
7.77
0.89

9.93
10.42

4.66
4.64
0.00
5.99
12.30
3.94
0.99
10.43
0.46
0.36
3.38
0.96
5.05
7.47
6.21
6.94
5.08
6.63
3.17
14.94
0.35
0.78
7.95
8.31
10.14
6.40
9.22
7.22
8.99
9.28
9.72
7.94
7.16
9.68
7.67
7.38
26.90

9.67 3.58
12.03 2.21
16.72 3.00
13.40 5.49
19.49 53.66

129.12 2.02
12.84 5.12
58.77 1.04
96.88 0.92
89.22 -2.39
64.60 -1.97
121.34 5.97
139.93 3.39
61.70 -4.19
105.62 3.04

5911.30 12.05
175.80 9.02
1517.49 9.47
1098.36 15.71
1185.76 14.36
1249.34 6.00
270.50 6.16

Corporate bonds back in black

FUND FOCUS
IRISH EQUITY

Best performer YTD:
Irish Life Corporate Long Bond +6.3 %

Worst performer YTD:
Aviva Long Bond Fund +2.2 %

While equities continue to be troubled by volatility in global markets, their debt counterparts are putting in much stronger performances, despite fears that corporate defaults would spiral as a result of the financial crisis.

According to Moneymate, in the year to July 23rd, Irish gross domestic funds invested in corporate bonds returned 4.0 per cent on average and advanced by 8.8 per cent over the previous 12 months. Top of the class is Irish Life's Corporate Long Bond fund, which is up by 6.3 per cent in the seven months to July 23rd, and by 10.6 per cent over the 12 months previous.

Unlike most fund categories, corporate bonds are in the black across the board; the worst performer in this category, Aviva's Long Bond Fund, is still up by 2.2 per cent in the period under review.

Given the positive performances being attained by corporate bonds, Brian Murphy, a bond indexation manager with Irish Life Investment Managers (ILIM), notes that equity investors are increasingly looking to bonds as an alternative.

ILIM's top performing fund has a global spread, but is restricted to investing in investment grade debt. Its biggest holding is Dutch bank Rabobank, and it is also invested in names such as BNP and GE. It has a 50 per cent allocation to financials, with a significant investment in utilities and telecoms also.

This heavy weighting in

significant investment in utilities and telecoms also.

This heavy weighting in financials has actually benefited the fund, with Murphy noting that banks across Europe have moved to buy back their subordinated debt in order to restructure their balance sheets. Given that this is frequently done at a premium, it is good news for investors.

While in line with the financial crisis and global recession, it had been expected that the volume of corporate defaults would rise significantly, this has turned out not to be the case, with Murphy pointing out that just a "handful" of names in ILIM's wider portfolio of 1,400 companies actually defaulted over the past 18 months.

This heightened risk perception had led to wider spreads for corporate debt, but this has since receded. Nonetheless, Murphy is upbeat about the outlook for corporate bonds, noting that debt buy backs in financials are likely to continue following the recent stress-testing of banks in Europe.

Although interest rates are likely to start moving upwards next year, Murphy doesn't expect this to have significant impact on corporate bonds, noting that it will affect Government bonds more.