FINANCIAL REVIEW smartinvestor

SE portfolio

HD **World view gives funds a boost**

BY Philip Baker - Philipis a columnist for Smart Investor and former bond trader who identifies opportunities and threats for investors everymonth.

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fixed income - ASSETS

The five-year annual return for Bentham Wholesale Global Income Fund, on page 52 of the April edition, should have been 20.56 per cent, not 9.26 per cent.

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BONDS

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Top-performing bond funds
FINALISTS IN THE MORNINGSTAR FIXED INCOME AWARD FOR 2013

(Table not available on database. Please check PDF page or contact Library
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A dip in global government bond yields has investors looking more at corporate **bonds** – a narrow scene in Australia. An international perspective helps, writes Philip Baker.

A **Chinese solar**-equipment maker has failed to meet interest payments on a bond, so it's been called **China**'s first corporate bond default. The default is small: the **company** can't stump up the $US14 **million** interest payment, but many investors have been lured to **Chinese** corporate **bonds** in the belief they have an implicit guarantee.

Standard & Poor's estimates **China**'s corporate debt might reach $US13.8 trillion ($15.2 trillion) in 2014, surpassing that of the United States as the largest in the world.

The recent dip in global government bond yields highlights the chase for higher yields which has investors looking more and more at corporate **bonds**.

Richard Quin and his team at Bentham Asset Management recently won the Morningstar fixed income award for 2013. The fund that concentrates on credit risk to generate returns has a very respectable track record. For example, the Bentham Global Income Fund return performance has been, after fees, 13.51 per cent for the 2013 calendar year, 9.26 per cent a year for five years, and 8.29 per cent a year for 10 years.

One of the strengths of the fund is the regular monthly income distributed to investors.

The fund tends to look at opportunities in the global space because the local corporate bond scene is quite narrow.

Quin says he and his team can review the relative value of both the Australian and offshore opportunity sets to identify the best risk-adjusted returns for clients.

"It allows us to build a robust portfolio with higher diversity across regions, types of credit, credit sectors, issuers and industries than is possible if an investor is Australian-only focused," he says. "For example, the top three industries in the Australian investment grade credit market account for 81.2 per cent of the market, versus 32.5 per cent for the US loan market."Very little real return ahead

Quin thinks interest rate yields around the world will remain low and provide very little real return above inflation.

For that reason, the fund has been able to focus on high-yielding yet short-duration global credit to generate positive returns for investors.

At the end of February, corporate bond credit spreads over safe-haven US treasuries, a measure of risk premiums, had narrowed to their tightest levels since the financial crisis in 2007 for both investment-grade and junk **bonds**.

Investors got an extra 1.1 percentage points for investment grade corporate **bonds** and just under 4 percentage points for holding junk **bonds**, according to Barclays.

In 2013, local investors in government **bonds** issued by the Commonwealth were lucky if they got about 2 per cent. That's below the average cash rate in the past 12 months of around 2.9 per cent.

It got a little better if you took some risk and invested in corporate **bonds**, with the UBS Corporate Bond Index returning 4.5 per cent. Global investors in government **bonds** actually lost money in 2013 as the prospect of the US Federal Reserve buying fewer **bonds** sent bond prices lower.

With yields still close to historical lows, investors are always on the hunt for more.

G8 Education is one of the small but growing number of companies that have recently issued debt for sophisticated investors in the local corporate bond market.

The **company** raised $50 **million** of floating rate notes with a four-year maturity that equates to an estimated income of 6.55 per cent for the next year and a projected yield to maturity of 7.42 per cent.

The notes are callable after two and three years depending on where they are trading; they are unsecured and rank behind senior debt issued by the **company**.

NS c172 : Corporate Debt Instruments | mntdbt : National Government Debt/Bond Markets | ncrx : Corrected Items | c17 : Funding/Capital | cactio : Corporate Actions | ccat : Corporate/Industrial News | m12 : Debt/Bond Markets | mcat : Commodity/Financial Market News | mgvdbt : Government Debt/Bond Markets | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpin : FC&E Industry News Filter

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