Spotlight on: corporate bonds

Paul Severin

ESPA RESERVE CORPORATE: 3 questions for Bernd Stampfl, fund manager.

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Bernd Stampfl, fund manager

What are the benefits of these funds, from your point of view?

Stampfl: ESPA RESERVE CORPORATE invests in corporate bonds with short remaining time to maturity. Thereby we try to reach a higher yield compared to other traditional Euro money market investments. The interest rate risk is minimised by the short duration that the capital is tied up for, and the default risk of the issuers is actively managed. The fund is widely diversified across sectors, ratings, and individual bonds. Attractive foreign currency bonds may also be mixed in, in which case we will always hedge the exchange risk vis-à-vis the euro.

What do you as fund manager pay particular attention to in the current market environment?

Stampfl: The primary task of the fund manager is to manage the capital s/he has been entrusted with while employing the utmost care within the framework of the defined fund terms. This implies the careful evaluation on the basis of the economic factors of the various countries involved, the assessment of the sectors that are in the investment universe, and the selection of the individual companies and bonds. Recently, the negotiability or liquidity of a bond has started to play an increasingly important role. The fund manager has to assess already at the point of investment in a bond whether the sale at market prices will be possible at a later date. Bonds with low levels of trade, while offering higher yields than securities that are popular on the trading floor, come with the risk of being illiquid at a later date.

At the moment we are cautious in the selection of companies that depend on the economic cycle or on raw materials. From our point of view these bonds currently do not offer adequate risk premiums. We are also sceptical with regard to corporate bonds that have very good ratings but are traded at negative yields. We believe that this segment is likely to experience a trend reversal, with negative effects on bond prices.

What are the return opportunities in this segment?

Stampfl: Emerging markets or peripheral markets corporate bonds as well as corporate bonds with medium ratings from the high-yield segment offer interesting yield opportunities. Due to the bond purchase program of the ECB we are especially interested in companies with a “BB” rating. From 2011 to 2015 our funds have gained an average 2.5% per year*). Due to the zero interest rate policy of the ECB I do not expect to see higher performance rates than this in the coming years. Generally speaking our target surplus return remains at 1% to 1.5% relative to a money market investment.

ESPA RESERVE CORPORATE_Grafik_en

Source: ERSTE-SPARINVEST; data as of 26 August 2016

*) Performance calculated according to the OeKB method. The performance accounts for the management fee. Does not allow for a one-time load of up to 0.75% nor any other fees reducing return such as individual account or depositary fees. Past performance is not indicative of future fund performance.

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http://www.erste-am.at/en/private_investors/our-funds/search/1-38501/overview

Benefits for the investor

- Broad diversification across selected, largely short-term or floating-rate corporate bonds
- No influence of foreign currencies due to hedging
- Chance of attractive annual dividend

Risks to be aware of

- The prices of corporate bonds depend on the ratings of the individual issuers. If these were to deteriorate (or one or more issuer(s) were to become insolvent), this could cause prices to fall
- A rising level of interest rates can lead to falling prices of the bonds in the fund
- Capital loss is possible

Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.

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