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Corporate bonds: why investing requires professional expertise

Is it wise to go it alone without specialists when investing in corporate bonds? It would seem that now, some investors see the asset class as sufficiently homogenous and low risk to justify doing so.

Recent events clearly demonstrate that this is not the case, though. The substantial losses suffered by Rallye are a prime example: its trading price dropped by 50 points in May of this year, undermining certain clients' trust in their portfolio managers.

The high yield corporate bond segment cannot be boiled down to a few flagship securities. Equating the entire universe with the most well-known names is certainly not a recipe for peace of mind. After the trouble at Rallye, the collapse of Thomas Cooke is another illustration of the fact that it can be preferable to opt for lesser known but safer opportunities.

Investing in the corporate bond market requires specific expertise, due diligence and scrupulous risk management – three factors that cannot be simply extrapolated from other asset classes. Informed, cautious management is not just a question of following the recommendations of brokers; after all, it is not their role to provide advice tailored to the financial profile and broader asset allocation of end investors. Those looking to invest directly must be willing to carry out in-depth research into bond issuers and monitor their positions on a daily basis. Otherwise, they run the risk of being disappointed.

To achieve our aim of delivering steady returns in an environment of persistent negative interest rates, our management process comprises several levels of analysis. First, we research the issuer's fundamentals. This entails a rigorous assessment of every aspect of the issuer's business model, competitor landscape, barriers to entry, sector prospects and potential trajectory for turnover and profit. In addition to this research, we carry out an in-depth analysis of financial statements (balance sheet, income statement, cash flow statement). It goes without saying that we go through the documentation on the issue itself with a fine-tooth comb, paying close attention to financial, legal and technical elements. These enable us to draw accurate conclusions as to the appeal of the returns on offer relative to the issuer's creditworthiness, the liquidity of the securities, market dynamics and the returns available on comparable bonds.

We also believe that portfolio diversification should be a top priority for every corporate bond investor. It therefore follows that an asset manager should be in a position to monitor a sufficiently wide array of securities and have the expertise and time required to choose between them.

For our Diversified Bond Opp. 2025, for example, our credit specialists cover over 120 issuers every day. The portfolio comprises issuers with diverse geographical origins, operating in a vast array of segments across the industry, commerce and services sectors. As at 31 October 2019, no one segment accounted for more than 15% of it, and the largest position (Ziggo, telecoms) was worth just 1.85%.

More generally, our approach combines in-depth financial analysis of individual issuers and extensive diversification of credit risk. Employed across all of our funds, this approach seeks to offer both performance and peace of mind.

Information on fund distribution both in and from Switzerland: The state of the origin of the fund is France. In Switzerland, the representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50 CH-8050 Zurich, whilst the paying agent is Banque Cantonale de Genève, 17, quai de CH-1204 Geneva. The prospectus, the Key Investor Information Documents, the fund regulation as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units.

About Anaxis Asset Management

Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.

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