SHINING A LIGHT ON……
THREADNEEDLE GLOBAL OPPORTUNITIES BOND FUND

At a glance

Fixed Interest (Bond) Investments are appealing to investors primarily because they can provide downside protection and they are less volatile than equities.

In our opinion, the halcyon days of good returns from bonds is coming to an end, although there are surprises as was seen in 2014 when gilts were one of the stand out sectors. The challenge for investors is how to invest in an environment where interest rates are low, where in some areas they continue to fall and in some places where interest rates are about to rise.

In our latest fund manager review we meet Martin Harvey who is deputy manager on the Threadneedle Global Opportunities Bond Fund. His argument is compelling, that is to respond to this market you need a strategy that can go anywhere within the fixed interest environment to deliver returns. But he added there needs to be an acceptance of taking more risk within the fixed interest environment, this means potentially these funds could be more volatile and returns lower.

Launched in 2011 the Threadneedle Global Opportunities Fund aims to deliver a positive return of 4.5% (gross of fees) irrespective of market conditions.

Who are the team behind the fund?

The lead fund manager is Jim Cielinski and co-manager is Martin Harvey. He joined Threadneedle in 2010 as Head of Global Fixed Income. Prior to that he worked for Goldman Sachs, Utah Retirement Systems and Brown Brothers Harriman. The Global Opportunities Bond appears to be his first fund management role, although he was Head of Global Credit for 12 years at Goldman Sachs and has been in the industry since 1983.

He only has a short track record which shows him outperforming his peer group. Martin Harvey joined Threadneedle in 2006 and is lead manager on the Euro Aggregate Bond Portfolios as well as co-manager on the Global Opportunities Bond. According to trustnet since managing portfolios he has tended to underperform his peer group.

With this fund although the managers are important to the overall process the feed of information is equally important. They are supported by 67 research professionals, 87 portfolio manager professionals and 24 trading professionals.

F**und highlights?**

There are a few things which investors need to consider carefully with this strategy. Firstly performance, the Citigroup USD 1 month eurodeposit index is around 0.02% and therefore you would expect returns to be around 4.5% gross. Although there is now a UK version, the version launched in 2011 is an offshore version. Using the Sterling Currency Version since launch it has returned 3.10% p.a. The charge on this is 1.51% which means the return gross was 4.61% which is on target. It is important to stress that if you opt for different currency versions the performance will change, and could be higher or lower than the Sterling Currency Version we have used.

However, the remit is specifically over twelve months and over this period the fund was down 1.07%. The point being that over a three year plus track record it has achieved its goal but over 1 year, 2 years and three years it hasn't so investors need to consider this carefully. Obtaining value from bonds going forward is going to be a lot harder than it has been in the past. If they haven't achieved to date it has to be asked whether they can achieve in the future.

Secondly and this is also worthy of consideration, the strategy is complex. We will touch on this but in an environment when it should have been possible to achieve the benchmark the fund appears to have fallen short. In a much more challenging environment the fund will either sink or swim, by this we mean it may be more suited to the environment we are entering or it may just not work in any environment.

So potentially investors need to consider these points carefully before investing. The next point to consider is how the fund invests and covers the point on a complex strategy – the argument from Martin is that they can adopt a best ideas strategy using macro strategies (duration, yield curve, currency), asset allocation and securitized, emerging market debt and corporate credit strategies. The approach is unconstrained so that they don't have to hold x in x strategy. They can move along the strategies to areas where they believe they can add value.

The types of strategies they like are high yield, negative duration risk and currency exposure to, in particular, the US dollar and Mexican Peso.

In conclusion investing in fixed interest assets has always been seen as lower risk however fixed interest assets are facing a challenging environment. For those wanting to remain in the asset class they have to accept greater risk, and perhaps consider diversifying into more complex strategies. However, many of these strategies to date have not delivered. This might be partly due to the current environment, and perhaps they are not suited to this. Going forward perhaps the new environment may be better, only time will tell.

Fund performance

Performance since launch is shown below.

	2011*	**2012**	**2013**	**2014**	**2015****
Threadneedle (Lux) Global Opportunity Bond AGH	2.20%	6.39%	2.58%	-0.90%	0.72%

*Since Launch August 2011
**To 28 February 2015

	I Year	**3 Years**	**Since Launch (August 2011)**
Threadneedle (Lux) Global Opportunity Bond AGH	-1.07%	6.64% (2.17% p.a.)	11.33% (3.10% p.a.)

The CitiGroup USD Euro Deposit 1m Rate was 0.41% over 1 year, 0.46% p.a. for 3 years and 0.48% p.a. since August 2011.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges *or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

Conclusion

This fund is designed for investors seeking fixed income investments in a new and challenging environment. The offshore version doesn't appear to have achieved its target over 12 months but since launch it has. The question for potential investors is whether in a more challenging environment this fund will flourish or die! There is no crystal ball to the future. Its complex strategies may not appeal to all investors but for those who believe the managers can deliver it may be less of a worry and this could be a sit and wait fund.

The source of information in this note has been provided by Threadneedle and is correct as at February 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.