

SHINING A LIGHT ON..... JUPITER STRATEGIC BOND FUND

At a glance

The fixed income sector is very difficult to call; there is a wide range of differing opinions. On one side there is the view that fixed income will struggle to deliver positive returns, on the other side there is the view that there remains plenty of opportunities.

The difficulty is choosing what is the best credit vehicle (government bonds, high yield, investment grade etc) and therefore many investors turn to what are effectively managed bond funds where the managers select the best sectors depending on their view at any given point in time.

One of the most popular funds in this sector is the M&G Optimal Income Fund which investors like and another popular fund is the Jupiter Strategic Bond Fund. This is a newer fund launched in 2008 and with slightly stronger performance.

This is the first time we have heard from the manager so the update was more about understanding his view of the market and where he is finding opportunities.

Who are the team behind the fund?

The fund is managed by Ariel Bezalel. He joined Jupiter in 1997 and has managed the fund since launch in 2008. He is a well-respected manager who over the long-term has outperformed the peer group more often than not. He also manages the Jupiter Dynamic Bond Fund.

Fund highlights?

He started by expressing his view of the global market where he feels that global growth is sluggish. In Asia both Taiwan and Singapore have posted ugly data (as he expressed it), in the US poor retail and job data is discouraging especially where there was an expectation that the US consumer would bail out the world, Germany is slowing and although the UK seems positive there are still challenges.

Turning to rate rises he feels there is a real split as to when these will be and it is now expected to be sometime next year, and in Europe there are debates on what the ECB can do in terms of QE. When he considers China the consumption of commodities ranges from 5% to 55% so they continue to be a big consumer but they are building massive over capacity creating a global inventory problem.

Combining this with a strong dollar and aging population the general picture globally doesn't appear good. The sharp correction in the markets he feels has been driven by a rush for cheap risk assets which have forced the market up. He therefore feels this is temporary.

He also feels the leveraging by companies has also helped the stock market via buy backs and M&A activity but the general credit cycle in the US is deteriorating. And this is global as the likes of Glencore, VW and Matalan have shown. He also argues that those who say this is just an energy problem are wrong – he believes it is spreading to retail, telecoms, healthcare etc.

On high yield he feels there are cracks in the market and the default rates are on the up. Reflecting this view, he has started to reduce down their high yield exposure to circa 50% (previously 70%) with

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a focus on more defensive credit. The duration of the fund is 5 years with an average credit rating of BBB.

He also favours government bonds with Australia being the largest exposure at 21% and also Cypriot Government Bonds. Investment Grade makes up a further 16% of the fund.

Much of the update was his view of the market which he seems to paint a fairly negative picture. His argument is that although the market appears poor their focus on quality means they can navigate through this to deliver good returns. If we compare to the sector average and the M&G Optimal Income Fund, he certainly has been able to achieve this.

In summary for investors looking for a strategic bond fund then this fund is certainly one to consider. Ultimately the managers will sell you their products and this manager can with his strong performance. What concerns me when painting a negative picture is how this might impact on credit and of course his argument is that despite this he can still deliver positive returns. It is therefore worth investors considering carefully whether they believe what he is saying and then considering how assets like bonds would respond in this environment.

Fund performance

Performance from 2010 to 30 September 2015:

	2010	2011	2012	2013	2014	2015
Jupiter Strategic Bond Fund	12.58%	5.58%	17.28%	7.16%	4.75%	1.77%
M&G Optimal Income Fund	9.83%	7.12%	14.31%	8.30%	5.78%	-1.52%
IA OE Global Bonds	8.89%	2.44%	7.98%	-2.54%	4.87%	-1.93%

1, 3, 5 and since launch performance:

	1 Year	3 Years	5 Years	Since launch
Jupiter Strategic Bond Fund	2.18%	18.26%	41.45%	102.11%
M&G Optimal Income Fund	-0.19%	16.32%	38.47%	95.58%
IA OE Global Bonds	-0.62%	2.56%	10.58%	48.80%

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.

The source of information in this note has been provided by Jupiter and is correct as at October 2015. 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.