

SHINING A LIGHT ON..... OLD MUTUAL GLOBAL STRATEGIC BOND FUND

At a glance

We haven't shied away from the fact that we feel that investing in bonds will be challenging moving forward. The returns we have had in the past are unlikely to repeat in the future and investors need to accept greater volatility.

Of course some investors may consider alternative investments to bonds but others will consider these the best way to counter the risk of equities. What is worth considering is the Barclays Gilt Study (2013) which showed returns from bonds would likely be around the 2% p.a. mark and equities 5% p.a. Perhaps now we are starting to move to that position.

Choosing the right place to be in the bond market is tricky and therefore there is a strong argument to choose a strategic bond fund where the manager chooses the sectors to invest in. The space is a crowded one and comparing performance is difficult. In this case I have compared to the M&G Optimal Income Fund which follows a similar strategy (although can use equities) and JP Morgan Global GBI Unhedged Index which it aims to beat.

This is a short update on the fund and further updates will focus more on the holdings.

Who are the team behind the fund?

The managers took over the fund on 1 May 2015. Christine Johnson joined Old Mutual in October 2010 from Halbis Capital Management where she spent six years managing fixed income funds including investment grade and high yield portfolios. Her career started in 1986 so she brings a lot of experience to the table.

John Peta joined on October 2012 from Threadneedle where he was involved with emerging market debt and prior to that Acadian Asset Management. He brings over 20 years' experience into the mix.

Fund highlights?

The first thing that concerns me about the fund is the performance; against the sector it has underperformed over 1, 3 and 5 years and therefore with better funds out there you might consider to read no further.

However, it is worth looking a little deeper. The previous manager left in 2015 after six years in charge and a new management team has taken it over. At the same time Old Mutual refocused restricted the fixed interest team using a team approach and introducing new co-managers to the fund.

Interestingly their approach is different to the old manager bringing more risk onto the table in an effort to generate better returns. At the same time their focus remains on protecting capital and providing shelter during tough times. I think one thing I found interesting was their view that bond returns are likely to be low or even negative from developed markets and therefore they have to search wider to deliver those returns.

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The aim is to invest in corporate bonds (including higher risk high yield bonds), emerging market bonds and currencies. Currently the fund holds about 10% in emerging markets, 46% in government bonds and 18% in index linked gilts. It has a cash weighting of 7%.

Effectively for investors this is a fund with a poor track record but a new team with a different mandate. Listening to the update clearly the managers are aware of the wider global economic picture and they are seeking returns from the best of these areas. It may take time to see whether the strategy works. Investors need to consider whether they are prepared to take that risk or not.

Fund performance

Five year performance statistics, and part performance for 2015 (up to 31 August 2015):

	2010	2011	2012	2013	2014	2015
Old Mutual Global Strategic Bond Fund	10.98%	3.24%	5.32%	-1.45%	-2.52%	-3.92%
M&G Optimal Income Fund	9.29%	6.59%	13.75%	7.79%	5.26%	-0.92%
JPM GBI Global TR LCL	4.18%	6.34%	4.11%	-0.43%	8.51%	0.45%

1, 3 and 5 year performance:

	1 Year	3 Years	5 Years
Old Mutual Global Strategic Bond Fund	-2.14%	-6.79%	-2.50%
M&G Optimal Income Fund	-0.60%	16.85%	37.76%
JPM GBI Global TR LCL	3.00%	9.46%	17.04%

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 Old Mutual and is correct as at September 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.