

Global corporate bonds - In search of coupons

Stockholm (HedgeNordic) - By investing in corporate bonds globally while holding part of the portfolio focused on the Nordic region, Stefan Ericson and the team behind the Pareto Global Corporate Bond Fund aim to deliver 4-6 per cent annually to its investors, a quest that has become increasingly challenging given the current interest rate environment.

"We are focusing on niche companies within defensive sectors while trying to be as diversified as possible on the portfolio level. We don't just go for well-known global brands, we look through the entire value chain in order to find global suppliers to these companies. Our focus is to find 'best-in-class' players with a significant market share", Ericson explains the overall strategy of the fund.

The fund's mandate is global, spanning across a wide number of issuers and sectors, albeit with a somewhat sharper focus on the Nordic region when compared to global peers, which Ericson sees adding value over the long haul.

"Benefiting from our local presence we can find issuers overlooked by the large international players. We are, however, not overly exposed to the commodities sectors given our commitment to favouring defensive sectors. We look to build a portfolio of stable companies and sectors, not being too reliant of boom and bust cycles such as those experienced in commodity prices".

According to Ericson, the Nordic corporate bond market is liquid enough for a relatively small player such as themselves to be able to trade this market efficiently. He notes however that the number of new issuances are relatively limited, which is one of the reasons it makes sense to trade globally.

"We are rather active in buying into new issuances. In recent months we have participated in seven new deals, of which two were Nordic names".

As an example of a Nordic name that the fund holds exposure to, Ericson mentions Global Connect, a Danish supplier of IT-infrastructure and fiber optic networks supporting businesses in Scandinavia and a growing number of clients in Germany.

"Global Connect is an entrepreneurial B2B company that has grown in the shadow of the major player TDC and has created a strong position in delivering internet access to highly demanding clients such as Nasdaq OMX and Viasat. The company has shown steady growth but continues to grow conservatively. We like the case given a yield of approximately 4 per cent compared to global players such as Telefonica, which yields approximately 0.2 per cent."

Talking of risk factors, Ericsson says that the overall ambition of the fund is to limit underlying risks to the highest degree possible. Before making an investment decision, the investment team, consisting of Ericson and his colleague Mathias Lundmark, looks into three separate groups of criteria.

"In considering a credit, we look at sector specific characteristics, company specific ones as well as

criteria linked to the bond itself. We have a strong focus on sector diversification as well as diversification across markets and regions. We typically create shadow portfolios, allowing us to follow how a potential investment would contribute to the overall risk profile of the portfolio before hitting the buy button”.

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