Public Issuers More Bulletproof

Stockholm (HedgeNordic) – In the search for yield, many investors have been tempted towards high-yield bonds. For these investors, there is some reassuring evidence showing that, over the long term, high-yield debt delivers what it says on the tin: high yields. **Sissener Corporate Bond Fund**, which took home the top honours in the "high-yield" category at this year's Alt Credit European Performance Awards, pursues a strategy of collecting coupons from Nordic high-yield bonds and, more importantly, avoiding defaults.

"Our local knowledge of the Nordic market, its companies and sectors, makes us better positioned to avoid defaults over time," says Philippe Sissener *(pictured)*, the portfolio manager responsible for Sissener Corporate Bond Fund. "The big differentiator between us and more traditional high-yield funds is that we are very biased towards publicly-listed issuers," emphasizes Sissener. "This focus is associated with higher transparency, better reporting, availability of management, among others."

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Discussing the advantages of investing in the bonds issued by publicly listed entities, Sissener says that "first of all, members of our investment team, portfolio managers and analysts, have most likely followed the publicly listed companies in our universe for a number of years already." Founded in 2009 by Jan Petter Sissener, Philippe's father, Norwegian asset manager Sissener AS is also managing long/short equity fund Sissener Canopus. "Secondly, just by looking at the share price, you get an indication of how the market is viewing the future of the company," Philippe Sissener tells HedgeNordic.

"Thirdly, and most importantly, there are fewer defaults in the Nordic market among publicly listed companies," says Sissener. "History has shown that there is a much lower default rate among bonds issued by publicly listed entities compared to those of private companies." If defaults do occur, "the recovery rates in default scenarios are much higher among publicly listed entities than in the private ones," according to Sissener. "The last though not least important part is from a liquidity standpoint, it is a lot easier to trade and sell the bonds issued by publicly listed entities." Overall, Sissener's focus on this segment of the market "makes things more bulletproof."

Portfolio Composition

"We will outperform by keeping a relatively concentrated portfolio of bonds that are handpicked and closely monitored by our analysts and portfolio managers with extensive experience," says Philippe Sissener. Sissener Corporate Bond Fund runs a concentrated portfolio containing between 30 to 40 names that are well worked through. "A concentrated portfolio is the key and only way to avoid defaults," he continues. "Our approach is a handcraft of investing in the right companies. That is where the whole secret is."

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The security selection approach involves “quite a big and complicated process, not for each name specifically, but for the portfolio as a whole,” Sissener points out. “The portfolio needs to have balanced diversification between sectors and companies, while keeping in mind that some companies are interrelated,” he continues. “The Aker group here in Norway, for instance, has a big holding company on top and lots of subsidiaries under its umbrella that also issue bonds,” Sissener elaborates. “You need to make sure that the total exposure to the group company does not exceed your internal limits.”

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Around 30 percent of Sissener Corporate Bond Fund’s portfolio is currently exposed to the energy sector. “We have a fair amount of our portfolio in the energy space as defined by the Global Industry Classification Standard (GICS) methodology, but that does not mean oil and gas specifically,” says Sissener. “Some of that exposure goes to solar parks, wind parks, and some sub-suppliers to both solar and wind industries,” he adds. “Under the GICS methodology, some parts of the shipping sector are also defined as energy.”

The GICS industry classification does not accurately reflect the actual composition of Sissener Corporate Bond Fund’s portfolio, Sissener suggests. “In addition, we have some bias towards some of the niche banks, as their perpetual bonds are trading quite favourably at the moment,” highlights Sissener. “Apart from that, we maintain a fairly balanced and well-diversified portfolio.”

On Track to Deliver

The fund overseen by Philippe Sissener advanced 6.5 percent year-to-date through mid-November. “We are very proud of what we have done so far,” says Sissener. “We tend to guide our investors between five and eight percent per year and we have shown that the portfolio is resilient and our aim achievable even through a global pandemic,” he continues. “We are up over six and a half percent year-to-date through mid-November, on track to deliver what we think is achievable in the long-term scenario.”

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“One of the key things that led us to this great performance this year was how we had positioned ourselves ahead of the downturn in March,” highlights Sissener. “We could not predict the coronavirus pandemic at all, but we had a cautious stance going into 2020,” he continues. “The wave of new bonds that came to the market was not paying very well compared to the risk they were bearing, in our opinion.” According to Sissener, “we tend to say that the Nordic high-yield market is supposed to trade between 300 and 700 basis points, but some companies were issuing new five-year bonds even below the 300 basis points-band.”

For that reason, the team running Sissener Corporate Bond Fund “preferred shorter-dated bonds available in the secondary market,” according to Sissener. “When the market collapsed in March, we had an average tenor of approximately 2.5 years, and this was one of the contributors as to why we managed to fall less than the market in general.” Sissener Corporate Bond Fund also had between five to ten percent of its portfolio exposed to hospitality-related issuers such as hotels and airlines.

“We just sold those out with a loss, we bumped them out as soon as we could in early March, which ended up being a good idea.”

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The team also reshuffled the portfolio from shorter-dated to longer-dated bonds throughout the March tumult. “Sissener Corporate Bond Fund used all the cash on hand to buy longer-dated bonds that had fallen much more and thus our investors got to ride the recovery and bull market since then,” says Sissener.

This article featured in HedgeNordic’s report Alternative Fixed Income Strategies.