



## Are convertibles the most attractive area of fixed income?

By [Philip Haddon](#) | 08:01:00 | 26 May 2009

In the second part (see [first part here](#)) of our focus on fixed income, we hear from some of those selectors who think convertible bonds are currently the most interesting area of fixed income.

Last week we heard that the majority of selectors were backing investment grade corporate bonds, but there are also a large number attracted to convertibles after their dramatic falls in the final quarter of 2008. Leonard von Schoeler from Berenberg Bank in Switzerland is one such selector who thinks convertibles are currently offering the best return potential.

'Even though there is no common opinion on how convertibles should be classified, we allow ourselves to allocate this asset to the fixed income space,' he says. 'In the current market environment, the characteristics of convertibles seem very appealing to us. In spite of the previous strong price increases, we still think that the high yields, the participation in a possible equity market rebound and their protection against inflation make convertibles a good investment. Intensive credit analysis will be key in 2009, as the bond component is likely to play a major role in the current uncertain economic environment.'

Matthias Weber from Swiss fund selection consultants Ifund services AG has a similiarly bullish view on the convertibles sector. 'We expect the best risk adjusted performance to come from convertible bonds,' he says. 'Last Autumn convertibles came under extreme pressure as a result of the convertible arbitrage sell off. Today we note that many converts are still cheaper than straight bonds from the same company, but thanks to their optionality offer extra potential.'

Weber is backing the LODH Invest - Convertible Bond and RWC Global Convertibles funds in order to access the asset class.

Also in Switzerland, Claudio di Paolo of Commerzbank is throwing his weight behind the convertible cause. 'At the moment we are of the opinion that in the fixed income asset class, corporate bonds and, above all, convertible bonds are very interesting,' he says.

'At current valuation levels there are a number of examples where the holder of a convertible bond is actually being compensated for owning the convertible option, instead of having to pay for it, as would be customary under

normal market conditions. We are convinced that investors in the mid-term will be compensated with solid risk adjusted returns'

The full report on selector's current approaches to the fixed income sector will be published in the June issue of Citywire Fund Selector magazine.