

Global Convertible Bonds EUR R

CREDIT

From inflation to growth

Uncertainty about future growth

Markets. The stock market had another strong quarter with the MSCI World AC gaining 6.6% in local currency and 6.0% in euro terms. The global Small cap index rose 5.0% in local currency while Growth index rose 9.4%.

The second quarter of 2021 was another quarter concerned about inflation and interest rates, but with a shift towards growth expectations. While the market was concerned in the first quarter whether inflation would be permanent or transitory the concern shifted in the second quarter towards growth and whether the expected recovery growth can be sustained or will turn out to be transitory. The latest corona mutations have contributed to this uncertainty. The recent outperformance by Growth companies while Value and Small cap have been lagging is also due to this uncertainty.

Diversification was rewarded

The Portfolio returned 2.8% gross of fees and 2.5% net of fees in Q2. The Morningstar category returned 1.7% while our benchmark returned 1.9%.

For the first half of 2021 the portfolio returned 8.4% and 7.8%, gross and net of fees, while the Morningstar category returned 2.5% and the benchmark 2.6%.

All regions contributed positively to the return of the quarter, but USA and Asia were the main drivers this quarter. On sector level we had positive contributions from almost all sectors.

Our ambition is to be highly diversified, so even though we have a tilt towards value and small cap in the portfolio, we

try to be well represented in all sectors and sub-sectors which also gives us exposure to growth companies. Normally, when growth companies truly rally, we will most likely not be able to keep up with our peer group or the benchmark, since we usually have an underweight in the most expensive parts of the market, but in the second quarter, the outperformance by growth was more subtle, and we managed to keep up and even beat the market by a small margin.

We have used the fall back of growth companies in 2021 to add to our growth exposure and continued to do that during the second quarter to reduce our underweight a little in this segment of the market.

We had 74 new issues during the quarter worth 31 billion euro, which brings the total amount issued this year to 81 billion euro. It looks like we will reach the record amount issued last year of 122 billion euro. The strong performance by convertible bonds during the last couple of years have had a self-reinforcing effect which has boosted the interest from investors and issuers. We have seen many new-comers to the convertible universe during the last year or so. While issuance during the first quarter was dominated by growth companies, it has been more diverse in the second quarter.

We had 72 buy trades in the portfolio during the quarter primarily due to inflow in the fund, and most trades were additions to existing positions. The rebalancing during the quarter was mostly from papers with high equity sensitivity to papers with lower equity sensitivity and more defensive characteristics.

See performance and fund data [Click here >](#)

Strategy

Sparinvest Global Convertible Bonds is a well-diversified global fund of convertible corporate bonds. Convertible corporate bonds are an asset class in the intersection between stocks and bonds that give some exposure to the stock market with a significantly lower risk than direct investment in the stock market. The strategy utilizes long-term factor premiums such as value, low debt and small cap. These are investment styles that, with certain fluctuations along the way, have historically delivered a long-term excess return compared to investments in the entire market.

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