Fund report, Q4 2021
Global Convertible Bonds
Bonds

ANOTHER CORONA YEAR

Q4 headwinds for small cap, value and Asia

Markets. When the market is led by a pandemic, it means that we have had different drivers and different risk concentrations than usual. During the last couple of years in the convertible portfolio, we have tried to keep a good balance between companies that benefit from lockdowns and those that benefit from reopening and normalization. That does not mean that we can avoid market volatility that often have been driven by corona related news and the derived effects on reopening probabilities, supply chain, inflation and interest rate expectations.

In the fourth quarter, especially small cap, value, Asia and "reopening" pulled the market down while USA, growth and tech contributed positively. The convertible universe has a somewhat higher exposure towards the reopening theme, both due to the sector composition and due to small cap bias. Omicron therefore hit the convertible universe a little harder than the general stock market, similar to small cap.

Strong year for the strategy

The Portfolio returned 0.41% and 0.15% gross and net of fees in the fourth quarter. The benchmark and Morningstar category of comparable global convertible funds returned -2.09% and -0.76%, respectively.

The elevated level of volatility lately, has given new possibilities in the market and we look positively on the current return potential. Our strategy is long term and our ambition is to deliver the best possible long-term return, both in absolute and in risk adjusted terms. In some of our positions, we therefore consider post-corona in our thinking.
Regarding inflation and interest rates, the convertible universe is well suited with an effective duration of 2. Historically, during the past 20-25 years, convertible bonds have always delivered positive returns in times of rising rates, independent of whether credit spreads were high or low at the starting point. The greatest danger in this aspect is of course policy mistake, which is difficult to protect oneself against, but we have a somewhat defensive approach right now in the portfolio, to better guard ourselves.

The return for the year ends at 7.03% and 5.91% gross and net of fees. Our benchmark returned -2.35% and the Morningstar category returned -0.10%. Being currency hedged means that we did not benefit from the stronger dollar in 2021. For comparison, the return would have been 6.6%-points higher in euros, roughly 13.6% in gross terms. Historically, in the long term, the convertible bond indices in euros and euro hedged have delivered similar returns, so things seem to smoothen out in the end.

In both absolute and especially in relative terms, it has been a rather satisfactional year. We are satisfied with the absolute return on top of a very strong 2020, and we have since inception in 2016 delivered 8.11% gross with a standard deviation of 8.90%. We find the risk/return profile attractive, especially considering the max drawdown profile and the fast recovery.

In relative terms, it has been a very strong year, partly helped from our underweight in the most expensive parts of the market.

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.