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Some thoughts about how to invest proceeds from maturing bonds and some cash without jumping to equity

So here we are, a few months into 2013, with a number of major stock markets climbing (though with light volume), money market rates at nothing and short dated bonds yielding close to nothing (and surely not enough to cover the counterparty risk involved by any standard) and long bonds in dangerous territory. What should risk averse investors do now with proceeds from maturing bonds – stay in cash or buy new bonds – with a guaranteed negative real yield – or do what they are supposed to do by the world's leading central banks – in printing mood as far as the eye can see – take the step from risk aversion into more equity investments? We won't answer this question with an outright "no" – but this just might not "be it" for all investors.

As the low rates are really biting investors at this juncture, we as manager have also arrived at a crossroad; should we take into account higher risks – even some clients clearly do not feel comfortable with even marginally higher volatility – or should we accept the zero rates, and see clients' funds being eroded by inflation – this is the choice the whole industry is facing. Of course the answer to such a broad question needs to be analyzed in detail for each and every investor – as mostly the basic situation and time horizon differs from investor to investor.

At Helvetic Investments we have been discussing this dilemma intensively with a number of investors - and are trying hard to create balanced portfolios with the "right" mix of assets in different risk classes – mixed with non-financial-market-correlated assets – but still a number of clients do not seriously want to take the path into more risky investments, but are remaining true to their lower risk strategies.

When facing this situation, we have for the last half year plus, advised clients to be very hesitant buying new bonds, but instead to invest into **proven and well managed bond funds** when bonds expire. We have been looking at funds with a relative short, or not too long, average portfolio duration – with a well mixed portfolio diversification from a risk perspective – and not least; a proven management. This, combined with our ability to transact these bond funds at Net Asset Value with only a few dollars of settlement costs (being a result of our institutional set-up), allows our investors to partly bridge the current stage of low to zero rates with an acceptable risk-return forecast.

The return the clients earn isn't absolutely predictable though – due to a number of reasons, but given the relative short dated maturities of the funds chosen, the known risk parameters of said funds and the known yield-to-maturity, it gives us the comfort that at least an acceptable return can be obtained – within our investors' given risk profile.

Specifically we have invested into the following bond funds which we consider outstanding (the following isn't an exhaustive list – kindly contact us for more information if required):

Templeton Asian Bond Fund (SGD hedged version), ISIN LU0563142537, estimated duration 1.7Y and average yield-to-maturity 4.1% *link to Templeton Asia Bond Fund*
If the currency isn't convenient, there is a USD version as well, and the swap costs in order to hedge the FX for CHF and EUR based investors are pretty small.

Pimco Income Fund E Class (USD), ISIN IE00B8K7V925, estimated duration 3Y and average yield-to-maturity 4.3% *link to Pimco Income Fund E Class*
Also here it counts that the swap costs in order to hedge the FX for CHF, SGD and EUR based investors are small.

Fullerton SGD Income Fund, ISIN SG9999008411, estimated duration 4.5Y and average yield-to-maturity 3.9% *link to Fullerton SGD Income Fund*

Fullerton RMB Bond Fund (*1), ISIN KYG3691E2907, estimated duration 2.8Y and average yield-to-maturity 3.2%. The fund is a **RESTRICTED FOREIGN FUND** – our accredited investors are kindly requested to ask the Helvetic Team for further details regarding this specific fund.

For the mentioned Fullerton Funds, it counts as well that a hedge of FX to a client's base currency can easily be handled. However, in regard of the RMB fund, we suggest to hedge the USD (instead of the RMB) to another base currency, if required.

The manager of the Templeton fund, Michael Hasenstab, is regarded an outstanding manager – though caught wrong-footed in 2011– and often known for his contrarian views. The fund's current low duration is based on the manager's assumption of increasing yields. see Bloomberg article

The two Fullerton bond funds are managed by Singapore based Fullerton Fund Management Company www.fullertonfund.com – a subsidiary of Temasek, the Singapore Government Investment Company.

As briefly mentioned, for investors with base currencies outside the mentioned funds' currencies, who don't want to seek exposure to the mentioned currencies, we would be pleased to support seeking an adequate currency hedge.

There are a number of risks involved when investing in funds as mentioned above – which all needs to be carefully identified and discussed. One risk issue – just to mention one of the major risks – is simply that the managers could be overwhelmed with redemptions in adverse market situations and thus may need to sell assets in a falling market – the classical risk when investing into collective funds.

It would be our pleasure to discuss with our accredited investors in greater detail if and how such a yield-seeking strategy might fit into their overall portfolio and asset and liability planning, if it hasn't been implemented already.

Please do not hesitate to contact us for an unconditional discussion or a portfolio check.

Your Helvetic Team/JW

(*1) bond classes; SGD, USD, EUR