



**Fund manager,
Old Mutual Corporate Bond
Fund**

Stephen Snowden is a highly experienced fund manager who has specialised in corporate bonds for the last ten years.

Earlier in his career he focused on equities, which gave him a strong grounding in company analysis, which is at the cornerstone of his investment process. Stephen combines top down analysis with bottom up stock selection, believing that selecting good bonds, rather than good companies, is the key to delivering returns for investors.

Stephen Snowden joined OMAM in 2004 and is the manager of the Old Mutual Corporate Bond Fund, as well as the bond element of the Old Mutual Extra Income Fund. He was previously Head of Retail Fixed Income at Aegon Asset Management where he managed the Aegon Extra Income Fund.

Fund details

Fund manager	Stephen Snowden
Launch date	June 2000
Sector	UK Corporate Bond
S&P	AAA
OBSR	AA

Old Mutual Corporate Bond Fund update

While our conservative policy towards the pricing of holdings and the widening bid/offer spread (reflecting illiquid conditions in the underlying market) have undoubtedly exerted a negative influence on the performance of the Old Mutual Corporate Bond Fund, the majority of the underperformance is attributable to the fund's positioning. Cash raised during the second half of 2007 was reinvested during the first half of 2008, only for credit spreads to then move dramatically weaker after the bankruptcy of Lehman Brothers in September 2008. This almost led to an unstoppable chain reaction of banking failures and as a result, the majority of the fund's underperformance is due to its holdings in banks and other financials which have suffered dramatically since. Notable underperforming holdings have been Lehman Brothers, AIG, RBS and Cattles.

The fund holds a broadly index-neutral weighting in banks and other financials. Although this has led to considerable underperformance relative to the peer group during the past year, bank bonds now trade at low prices and we have maintained our market-neutral position. Analytically this appears to be highly questionable, given the tremendous challenges faced by the sector, but we must marry those fears with the extraordinary efforts to which governments globally are going to maintain the solvency of banks. Valuation is also key - although we are overweight utilities, we must consider a utility bond yielding 5% against a bank bond yielding 25% in perpetuity. While exposure to banks has caused considerable downside to date, having no exposure now would pose a material risk of missed upside in the event of a recovery. The fear factor revolving around all bank bonds has reached fever pitch, irrespective of the different contractual obligations of the specific bonds. Although some bank bonds will not pay their coupons and some banks will choose not to redeem their bonds on the maturity date, they are likely to be in the minority.

The biggest move away from the market and the peer group has been the fund's long standing underweight in AAAs. While this has clearly been to the detriment of performance in the last year, we believe it is the correct positioning going forward. Corporate bonds have collapsed in price, yields are very high and the risks are now more symmetric. In normal times, corporate bonds provide a yield-type return, but carry a potential risk of 100% of face value. In distressed times such as these, many bonds trade closer to 50% of face value, presenting as much upside risk as downside risk. By sector, the fund has a diversified exposure to general industrial, infrastructure and consumer related companies.

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Please see important information overleaf

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Credit spreads reached their lowest ebb in over 100 years in December 2008, eclipsing the worst point of the Great Depression in the 1930s. The natural reaction to such dramatic falls in asset values is to retrench to the safe havens of cash, government bonds and utilities. While these are worthy areas of defensive safety, the exclusion of other areas will over time inhibit the material opportunities generated by such an environment. We expect the corporate bond market to recover over the long term, with the most troubled areas delivering the most recovery, although the path to recovery will not be smooth. The economic environment remains bleak, with global growth contracting further, but credit spreads are pricing in a 'nuclear winter'. In spite of the global challenges, we believe today's corporate bond prices probably present a once in a generation opportunity.

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