Old Mutual Corporate Bond Fund

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

Corporate bonds have rallied strongly over the past couple of months, supported by the return of major banking groups to profitability and expectations of an economic recovery next year. Stephen Snowden, manager of the Old Mutual Corporate Bond Fund writes that the market is showing early signs of a return to normality after a prolonged spell of fear.

Dramatic interest rate cuts in the UK have been a mixed blessing - whilst reducing the cost of borrowing, they virtually wiped out the interest paid on deposits. However, the latter is proving good news for equity and bond markets as investors are driven to take more risk in order to maintain required returns. Their move away from cash has also lent support to government bonds, which have become an attractive source of income compared to deposit accounts. For instance, 20 year gilts are yielding 4.25% in an environment where interest rates are likely to stay close to zero for as long as deflationary pressures remain.

Coupled with widely-held expectations for an economic recovery next year, investors' move from cash to riskier assets has led to a strong rally, with the markets recognising the value of new money being invested into the economy.

This coincided with another important positive development as several major banks announced their return to profitability in the first quarter of 2009 and started to buy back their own debt. Ever since the beginning of the subprime debt crisis, most investors have avoided financials, creating a two-tier market. The sector remained under heavy pressure from risk aversion well into early March, whilst 'plain vanilla' bonds issued by leading non-financial companies such as Vodafone, Shell and Tesco, reached their lowest point around the end of last year and have been in recovery mode ever since. In the past, banks were very heavy issuers of bonds but the subprime crisis changed this dramatically as investors' appetite for bank debt evaporated. Subsequently, the void created in the new issues market has been filled by large non-financial companies, with recent issuance exceeding the historical average by two or three times. The attempts by the Bank of England to resolve the liquidity problem by buying bonds has made little difference beyond the high grade area of the market that was already well supported. It has also had little, if any, impact on either the availability or the cost of credit for UK companies.

However, as banks, a key origin of fear and uncertainty in the market for so long, are returning to the black, all this might be changing. We believe that for investors in corporate bonds, 2009 will be another year defined by their exposure to the financial sector.

Please see important information overleaf

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