



LWM Consultants Ltd

Meeting the Fund Manager

JPMorgan High Yield Bond

We have made no secret of our concerns around developed market bonds. It therefore seemed opportunistic to meet one of the senior members of the High Yield Bond Team, William Healey. William has been managing high yield bond money for over 30 years in Asian, US and Europe and therefore has seen many twists and turns within the bond market.

Although clearly this is a well-managed fund we would struggle to invest in a high yield bond at this stage preferring a strategic bond strategy which has the freedom to move between strategies. We will however continue to monitor this fund.

Investment objective and profile

The JPMorgan High Yield Bond Fund seeks a high level of income by investing primarily in a diversified portfolio of debt securities that are rated below investment grade or unrated. Capital appreciation is a secondary objective.

Managing the fund

The first thing that struck me was how the current uncertainty within the market has moved what would be seen as high profile companies from investment grade stock to high yield. The likes of Ford, Nokia, Fiat and Jaguar / Land Rover have all seen stocks fall below the investment grade threshold.

Effectively what you have is a collection of fallen angels. This led to a discussion over how risk high yield bonds are – in the past fallen angels where falling and not coming back but clearly looking at the brand names this seems unlikely with this collection of bonds. William explained about collection of bonds, 60% of the time good things happen before maturity, so for example the bonds are matured early especially if they move to investment grade. Only around 10% of high yield bonds actually mature as that – so the risk factor is less than expected.

Many companies that have found themselves in this position have good cash flow positions, cash on the books but for some reason are out of favour. The key is to find the companies that are in this position and fund benefits from the large fixed interest team at JPMorgan with an average experience of 15 – 16 years. The environment we are in is that the sovereign debt crisis is driving companies into the universe who perhaps shouldn't be and this offers opportunities.

We then went to look at the volatility within this market, at the moment this is tracking at around 6 – 7%, so volatility is low. The second point about the fund is the turnover which is relatively low in relation to the market which provides more stability.

Conclusion

This is a well-managed fund – however, due to the nature of funds we believe a strategic bond provides the fund manager with more flexibility to move between strategies to reflect any given point in time. It was clear from the discussion that there are opportunities in this space and we will continue to monitor this.

The source of information in this note has been provided by JP Morgan and is correct to the end of April 2012. These are notes from meeting the fund manager and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.