

JUNE'S  
HOT TOPIC

CIG  
Bonds

## BONDING WITH INVESTORS

The combination of falling interest rates on cash deposits and government bonds has resulted in a surge of interest in investment grade corporate bond funds this year throughout much of Europe. Sales in the first quarter (€11bn) have already exceeded flows for the whole of last year (€4bn). Investors have been attracted by the high yields on corporate bonds. These resulted from market fears about potential default rates among companies as a result of the deteriorating economic climate. The excess yield available on corporate bonds over government bonds has risen to unprecedented levels. Although bond fund managers acknowledge that some companies will go bankrupt, they do not expect defaults to be anywhere near as high as the level priced in by the market. They argue that investment grade bond issuers tend to be large, stable companies, most of which will be able to weather the current storm.

### RISK AND RETURN

The popularity of bond funds had been waning for some time, but recently investors have been prepared to take greater risk to earn returns and corporate bond funds were the answer. However, there have been some concerns that a corporate bond 'bubble' may be developing. Markets such as Italy, Spain and Germany have continued to suffer bond fund redemptions so CIG bond inflows of €11bn are all the more striking given that Europe's bond category sustained net redemptions of €7bn for the same period. But bond fund managers argue that, while spreads have narrowed, there is still value in the market. They expect corporate bonds to outperform both cash and government bonds over the next one to two years.

### GRABBING A SHARE OF THE ACTION

As investor interest in investment grade bond funds has increased, there has been a rush of new fund launches by hard-pressed asset managers. During the first quarter, 33 new funds were launched in Europe which is more than were launched during the whole of 2008. If this trend continues, 2009 will be a record year for investment grade bond fund launches. Leading the field is Belgium which accounted for a third of the new fund launches, which were split between Fortis and KBC, ten new funds appeared in Luxembourg and six in Germany. In Spain a spate of launches has recently begun.

## IN BRIEF

**Net sales of investment grade corporate bond funds in the first quarter** were over €11bn, nearly three times the inflows during 2008.

**The fastest growth in assets this year is in Spain and Belgium,** where they have risen by 61% and 37% respectively.

**The UK has the largest share** of investment grade bond fund assets thanks to the popularity of bonds within diversified portfolios.

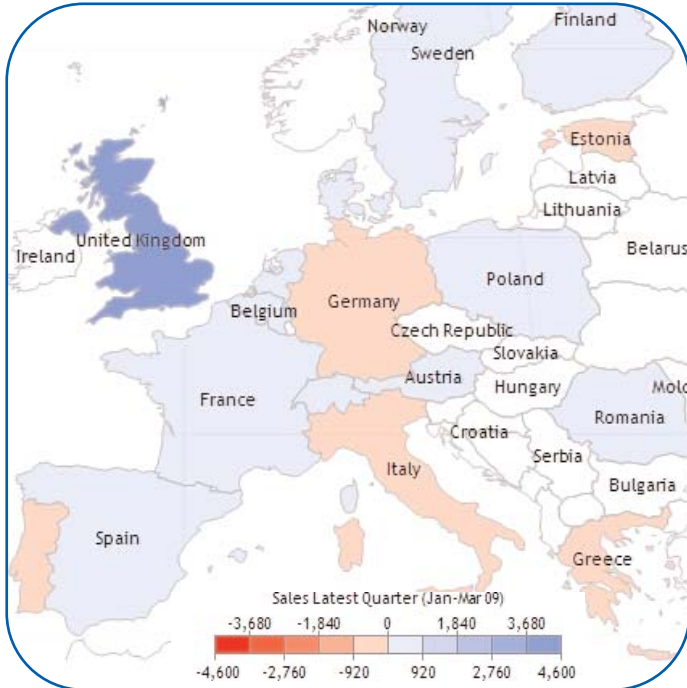
**The best selling investment grade corporate bond ETF in Europe the first quarter** was the iShares € Corporate Bond Fund which attracted €360m.

**According to M&G, one third of the corporate bond market would need to go bust over the next five years for bonds to underperform government securities.**

# HOT TOPICS



## European map of Bonds Corp Inv Grade sales in Q109 (€m)



## Top 10 market by assets (€m)

Fund market	# funds	Assets Mar 09	YTD gth %
United Kingdom	104	36,389.7	12.9%
International	120	33,976.5	18.3%
France	57	6,208.5	6.3%
Germany	36	4,441.0	-13.9%
Italy	24	3,285.6	-10.9%
Finland	11	2,923.0	9.4%
Belgium	21	2,862.3	36.6%
Austria	17	1,583.9	30.8%
Spain	11	716.4	60.8%
Netherlands	5	622.8	6.9%
Rest	22	981.8	1.4%
<b>Total</b>	<b>428</b>	<b>93,991.5</b>	<b>12.4%</b>

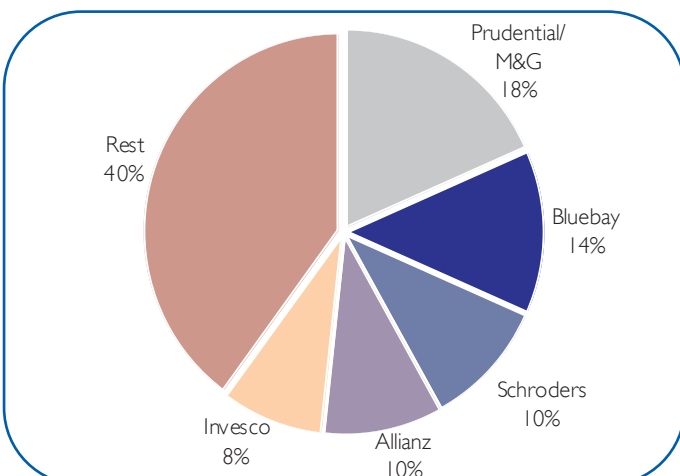
## Top 5 master groups by assets in Q109 (€m)

Master Groups	Nat	Assets
Lloyds TSB/HBOS	UK	8,635.5
UBS	CH	6,946.0
Barclays	UK	5,960.9
Prudential/M&G	UK	5,820.0
Invesco	UK	3,974.3
Rest		62,654.8
<b>Total</b>		<b>93,991.5</b>

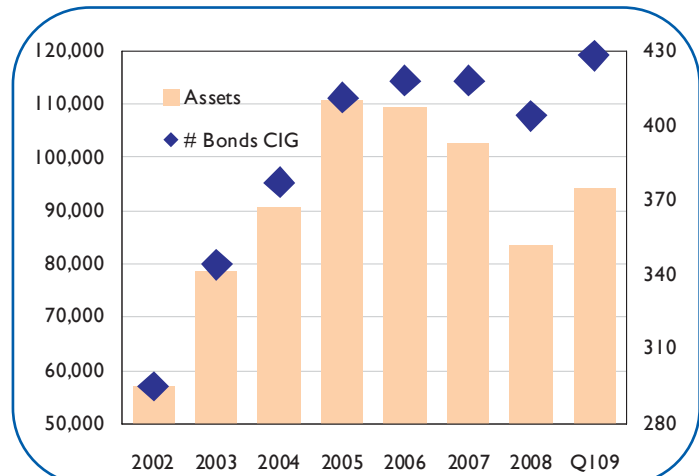
## Best CIG bond funds by sales in Q109 (€m)

Fund	Dom	Sales
BlueBay - Investment Grade Bond	LX	1,511.3
M&G Corporate Bond Fund	UK	1,426.2
Invesco Perpetual Corporate Bond	UK	878.3
Schroder ISF-Euro Corporate Bond	LX	791.6
Pimco Global Investment Grade Credit	IE	787.4
Rest		5,694.8
<b>Total</b>		<b>11,089.7</b>

## Top 5 master groups by sales in Q109 (€m)



## Growth of CIG bonds funds by number and assets (€m)



Notes: Sales are estimated net sales. Latest Quarter is the period Jan-Mar 09; Bonds CIG include Bonds EUR, GBP, USD and European Currencies Corporate Inv Grade.