

## Global Convertibles Blog: "Asset Price Reflation"

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### Market review (Performance data in USD, except otherwise stated)

In the last several weeks global risk markets showed a strong performance with equities recovering from new bear market lows reached in early March. In March global convertibles rose by 3.3%, driven mostly by equities gaining 8.3% globally (in USD). Corporate bonds were flat with only moderate spread tightening at the balance of the month. Volatility came down 4 points to still remain above 40% (US VIX Index closing 42%). The market for new convertible issues gained momentum with some companies taking advantage of the improved equity sentiment. A number of smaller and some large issues, dominated by the commodity sector took place: Alcoa (Metals&Mining) and Arcelor Mittal (Metals&Mining) as well as Cap Gemini (IT Services). Investor reception was warm with attractive option pricing leading to strong oversubscription and initial price performance. Year-to-date, the relative ease of refinancing despite tough economic conditions has clearly surprised on the upside.

### Performance

The global portfolio (AgaNola Global Convertibles Focus Fund) outperformed its market index in March by 59 bps net over the month (I class, USD). The strongest performers in the universe were financials as well as energy names of either higher delta (Citigroup [Banks]) or lower credit quality (Prologis [Real Estate], Acergy [Oil&Gas]). The technology sector continued its outperformance trend, reflected in the portfolios positive performance contributors Intel (Semiconductors) and Xilinx (Semiconductors). Also helping was the underweight in Deutsche Telekom (Telecoms). Negative contributions came from Verisign (Software) and EDP (Utilities).

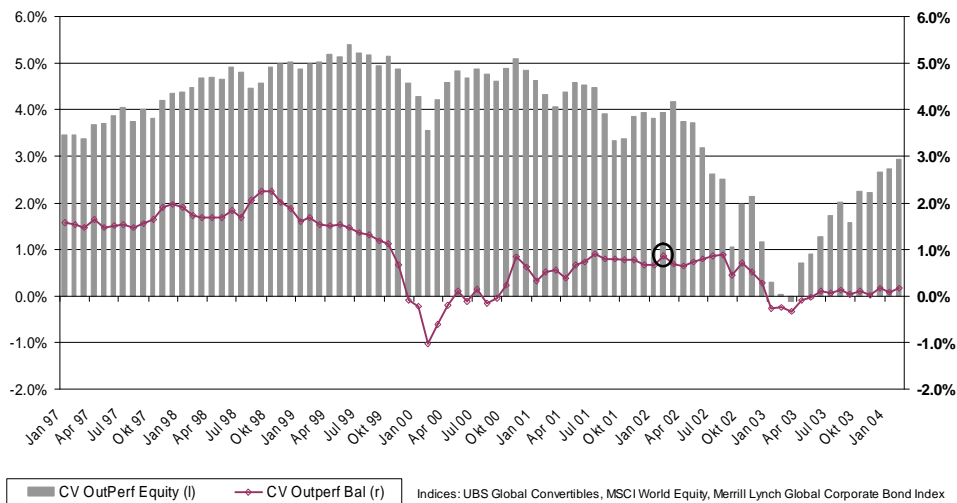
The aggressive global portfolio (AgaNola Global Convertibles Fund) returned 3.9% net over the month (I class, USD) with largest contributions from straight equity and high yield positions. The European portfolio (AgaNola European Convertibles Fund) gained 0.48% (in EUR) net over the month (D class, EUR).

### Portfolio policy and outlook

The number of holdings was further increased to enhance yield and diversification. Larger defensive positions like Amgen (Pharma), Medtronic (Pharma) and US Treasuries were reduced with proceeds invested in new investment grade names like ArcelorMittal (Metals&Mining) and Boston Property (Real Estate) as well as non rated or high yield

names like Maurel&Prom (Oil&Gas) and Valeo (Automobiles). This path is likely to be continued while switching preference from yield enhancement towards quality as the bear market rallye continues. Balanced convertibles have richened on strong investor appetite, guiding to be selective and rather underweight in this segment. Convertibles with attractive floor returns and increasing equity participation remain the asset class of choice in a late stage bear market scenario (see chart).

Prospective Annualized Outperformance of Convertibles 1997 to Date versus Equities and 50/50-Balanced (minimum 5 year period)



## Remarkable

- **Disinflation** – The 10 year US Treasury yield dropped close to 50 bps on March, 18<sup>th</sup> representing the largest percentage drop in at least the last 50 years. Reason was the announcement of the US Fed to buy up to \$300 billion US Treasury securities and hundreds of billions of mortgage backed securities. (Source: WSJ, AgaNola)
- **Global Recession** – The World Bank now expects the global economy to shrink by 1.7% in 2009, the first contraction since World War II. Japan reported a 49% fall in exports in February from a year earlier. (Source: WSJ)
- **Global Convertibles outperformed a 50/50-Balanced Portfolio since 1997 to date on every lookback period of at least 5 years. On prospective outperformance the same is true for most of the historic entry points, while late stage equity bear markets as opposed to troughs presented optimal entry points (Source: AgaNola)**



## Performance overview

Performance Peers (net) - Global Convertibles, <u>unhedged</u>	in USD % Inc.*
AgaNola Global Convertibles Focus	-18.2
Credit Suisse Bond Convert International A USD	-20.8
Adler Global Convertible Fund A	-17.1
Experta Fund - Fisch CB - Int Conv Expert EUR A1	-20.2
Jefferies Global Convertible Bonds USD B	-18.1
Julius Baer Global Convert Bond Fund B	-24.2
Calamos Convertible Fund	-19.6
Gabelli Global Convertible Fund	-28.0
Anima Convertible	-20.2
Aviva Morley Global Converts	-20.1
F&C Global Convertibles	-19.0
Advent Claymore Global Convertibles	-51.9
GLG Global Convertible UCITS Fund	-22.6
<b>Median Peers</b>	<b>-20.2</b>
UBS Global Convertible Index	-21.6
Jefferies Global Convertible Index	-16.9
Merill Lynch Global Convertible Index	-20.6
<b>UBS Global Convertible Focus IG Index</b>	<b>-18.4</b>
MSCI AC World Equity Index	-38.5
<b>Other AgaNola Funds</b>	
Aggressive: AgaNola Global Convertibles	-26.4
European: AgaNola European Convertibles	-23.4

\*since Inception as of August 27, 2008 (Source: Bloomberg)

as of 31.03.2009

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