

# Portfolio Analysis:

## Bond Global

# The dollar debate

*Despite being rated one and two in Citywire's Bond Global sector over the past three years, Bruno Crastes and Friedrich Moser have very different approaches to managing fixed income, writes Angus Foote.*

Do currency trends matter to bond managers? They do to Bruno Crastes, manager of Crédit Agricole's Oblig Internationales fund.

But Friedrich Moser, manager of the Ziel Netto and Ziel Brutto funds for Ziel Invest, is emphatic that he does not speculate on currency trends.

The contrast is all the more interesting as the two managers are first and second in the Citywire rankings for the Lipper Global Bond sector over the three years to the end of May.

London-based Crastes, who is also fixed income CIO at Crédit Agricole Asset Management, has since dropped out of the rankings after the group's creation of a new share class for his fund led to a reclassification. But he has consistently topped the rankings in the sector and he was 17th in the very first Citywire list of Europe's Top 100 Fund Managers, published earlier this year.

Moser is based in Vienna and runs the Ziel Netto and Ziel Brutto bond funds, for which he was second out of the 218 managers ranked by Citywire in the



Crastes: expects strong dollar performance

Bond Global sector over the three years to the end of May and 13th in the top 100.

The €25 million Ziel Netto invests 80% of its assets in global bonds and 20% in value stocks, while the Ziel Brutto fund, which since June has been closed to new money, invests in global bonds.

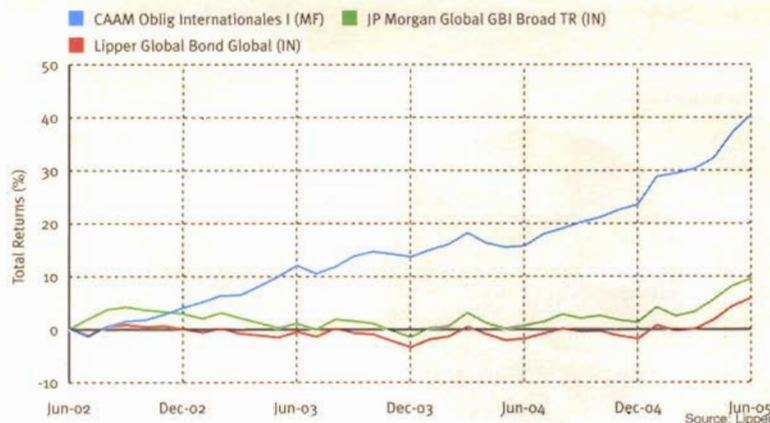
'The benchmark of Ziel Netto consists of 80% EFFAS Bond Index Euro Government All > 1 Year and 20% Austrian Stock Index ATX Prime. We shape the bond portfolio according to the mean and the

distribution of duration in the bond index and our opinion on coming interest rate movements. At the moment I don't have any special biases about interest rates. The portfolio's duration is distributed like that of the bond index.'

Looking back over the twelve months to the end of July, Moser identifies three main drivers of the fund's strong performance: the equity element of the portfolio, the long duration when euro interest rates have fallen, and the focus on dollar bonds as the dollar gained against the euro.

Interestingly for a manager classified in the global bond sector, Moser picks out the equity portion of his portfolio as the most important influence. 'A small fraction of stocks brings return and hardly adds to the portfolio's volatility. The stocks were the number one drivers for the long run. There have been many

### Crastes has consistently topped the Bond Global sector rankings



good bond ideas, but the small stock part is the long term driver,' he says.

For Bruno Crastes and his fixed income team at CAAM, however, currency management is one of the most important elements of their process.

Crastes bases his process on six axes: the duration axis, country allocation axis, yield curve axis, currencies, emerging markets and trading.

'All of those six add value in terms of the information ratio but the best are currencies and country allocation,' he explains. 'The value in global fixed income is in the way you allocate your duration in terms of countries, and from currencies. Currency management is definitely a large part. There is value coming from the rest, but not so much.'

Crastes and his team manage currencies and bonds separately and it is their currency view that has led to the biggest change in the portfolio in recent times.

'What has changed dramatically is our view of the dollar,' says Crastes. 'From mid 2000 to the end of 2004 we were bearish on the dollar. But we bought back all of our dollars at the end of last year.'

This change was implemented not just on the fund that Crastes runs directly, but right across the CAAM bond range. 'This is where we have been the most accurate,' he says. 'Up until the end of 2004, the short dollar position was the story. In 2005, the long dollar position is the story. On the bond side, we have been short the market for more than one year. Bonds are too expensive.'

'We think the dollar is going to be the best performing currency in the coming months.'

He is negative on the euro but says bond markets are too expensive. 'Bonds are going to go through a very difficult time,' he says.

Given the great record that Crastes and his colleagues on the CAAM fixed income team – who include star bond manager Cédric Morisseau (profiled in FMI issue 8) – have a great record on calling the dollar, so their views are worth listening to.

Crastes believes the separation of bonds and currencies is an important factor in good bond fund management. And following on from his view on the dollar, he believes there is now a consensus view that bond markets in Europe have somehow broken the link with the US market – a view he believes is wrong. 'If bond yields in the US go up, then Europe will go up as well,' he asserts.

Moser, on the other hand, is adamant that he does not speculate on major currency trends although he obviously does not ignore them. The model which he watches is currently forecasting 1.2 USD/EUR until the end of 2005.

And while Crastes and his team have been making money from the dollar's movement, Moser has turned to a very different source of return: junk bonds.

'In April and May I bought my first junk bonds: General Motors Corp. 7.7 04/15/2016 and Ford Motor Company 6.5 08/01/2018. Together they are 5.6 % of the portfolio,' he says.

The downgrading of the debt of the two US car giants was a big story earlier this year and drew contrasting responses from fund

managers. But Moser believes the market overreacted and he was confident enough in his view to buy the bonds.

'Our numbers show that the decline in their prices was exaggerated,' he says. 'General Motors and Ford have high debt, both 90% of total capital, but they earn much more than their interest expense - GM ebitda to total interest expense 7, Ford ebitda to total interest expense 15. The companies did not want this capital structure. But the two bonds in Ziel Netto are a reasonable way to finance their business at the moment.'



Moser: does not speculate on currency trends

#### Moser's Ziel Netto fund has been driven by its equity portion

