



PRESS RELEASE

Time to sell your overpriced bond funds

Provided on an information only basis to investment professionals

3rd November 2010:

Stuart Ratcliff, Chief Investment Officer, Matrix Credit Opportunities Fund, comments on the outlook for the corporate bond market:

The current environment for credit is too good to be true. The desperate hunt for yield remains unabated. Credit investments are benefitting from a combination of strong investor demand, low US Treasury yields, low default rates and a second wave of quantitative easing. **We are definitively at the early stages of a corporate bond bubble.** Companies and governments are taking advantage of it by issuing long dated debt. As an example, this month Mexico has sold \$1billion of 100-year bonds yielding 6.1% and Goldman Sachs sold \$1.3 billion in 50 year bonds.

However, investors should be cautious as they are buying bonds at very high prices with yields well below the 20 year average. For the next 6 to 12 months the hunt for yield will probably continue. But, bubbles always end up bursting unexpectedly so investors will have to time their exit pretty well if they don't want to lose money.

Following an outstanding performance of corporate bonds over the last 18 months investors need to adjust to a new reality: corporate bonds are no longer cheap. In 2011, long only bond funds are likely to underperform credit event-driven funds and long/short credit funds.

In particular, high grade bonds are fully priced and offer limited upside as most high grade corporate bonds are trading above par. The yield provided by these bonds is very low. As an illustration BMW's bond maturing in October 2017 is trading above par at 110.18 (as of 27th October 2010). The bond has a coupon of 5% but investors buying the bond at current price are expected to receive a yield of just 3.3% before fund fees. Limited upside room.

Stuart said: "We believe that investors in high grade bonds are not being fully compensated for the risks they are taking. When spreads are tight (as they are) high grade bonds become extremely correlated to sovereign bonds. Therefore investors are taking on both corporate risk and sovereign risk, and following the events in Greece and Ireland they should be aware of this. The Matrix Credit Opportunities Fund offers a suitable alternative to traditional bond funds and aims to deliver good returns regardless of equity or corporate bond market direction."

The **Matrix Credit Opportunities Fund** is a fund of credit funds now invested in 14 credit funds across four key credit strategies which, we believe, will continue to perform into 2011: Event-driven credit, Distressed credit, Long/short credit and Emerging Markets credit.

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Notes for Editors

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Within the Asset Management division of Matrix Group we have a wide range of Funds of Funds, Hedge Funds and UCITS Funds as well as Cash Funds, Private Equity & VCTs and Specialised Finance.