THE GREAT YIELD HUNT

GREG STOCK
Head of Credit Research
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Investors are seeking it here, seeking it there, seeking it everywhere. Yield is the Scarlet Pimpernel of today's investment market. Unfortunately, there's little yield to be found amongst the usual suspects, such as cash management trusts, term deposits and government bonds.

Why the hunt for yield?

The world is grappling with low growth and central banks have attempted to stimulate economies by lowering interest rates. Indeed, the duration of the current low-rate cycle can only be matched by the period following the Great Depression in the 1930s.

In Australia, the Reserve Bank has reduced the official cash rate to 1.75% and our 10-year bond yields have fallen to the lowest levels on record.

So where do you look for yield?

A compelling case for credit

There is an alternative – investing in credit. Credit is where you invest in 'bonds' issued by companies, not governments. The upside is that they can pay higher returns than government bonds or cash. They are however, less secure than government bonds. You are relying on the company to pay you back from the proceeds of its business, rather than relying on the government paying you back from taxing its citizens.

That's why good stock selection (investing in the right corporate bonds) is so important. And why a credit fund – where you invest in a selection of corporate bonds with risk and return managed by a credit expert like Perpetual Investments – could be one option if you're looking for an income investment.

Interestingly, the current low-rate environment is positive for credit funds.

Low interest rates improve the position of companies issuing bonds because they're paying less interest on their existing debt – and that's a boost to the bottom line.

The credit worthiness of mortgage-backed securities – a big part of the credit market – has also improved with falling interest rates.

"As mortgage rates fall, people tend to maintain their mortgage repayments, which means they're making more of a capital repayment. That further reduces the risk of those securities."

Greg Stock, Head of Credit Research and Senior Portfolio Manager, Credit, at Perpetual Investments.

Yield Comparison*

Perpetual Wholesale Diversified Income Fund to 31/5/2016

1 YEAR	3 YEARS	5 YEARS
2.26%	3.88%	4.98%

90 DAY BANK BILL (CASH)	10 YEAR BOND RATE
1.88%	1.99%

Source: **Perpetual, Morningstar (30/6/16)**

It's all about finding value
As with other Perpetual Funds, our credit managers seek quality assets, at attractive prices. In credit that means we seek corporate bonds with strong business fundamentals that we believe are undervalued. The Apple bond, one of the largest issued in Australia last year, is a recent example.

"We didn't buy into Apple at the time because we believed it was too expensive. But prices fell this year which offered value because the credit fundamentals were strong," says Greg.

With credit fundamentals improving and yields more than competitive with traditional income options, credit investing offers a real alternative for income-hungry investors. To watch Greg Stock explain how Perpetual is managing credit in the current environment, watch the video above.

Find out more about our credit funds at:

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