«Fund and Management approach» Interview with Ralf Ackermann

The current low or negative interest rate environment poses an unprecedented challenge for bond fund managers. The aim is to generate performance for investors without significantly increasing the risks. One fund which has sustainably managed this balancing act is LiLux Rent (ISIN: LU0083353978), managed by Nobis Asset Management S.A. in Luxembourg and administered by VP Fund Solutions (Luxembourg) SA.
We spoke to Ralf Ackermann, the fund manager of Nobis Asset Management, about the fund and the management approach.

Mr Ackermann, what is the investment philosophy of LiLux Rent?

LiLux Rent is a corporate bond fund whose investment guidelines stipulate that at least 2/3rds of the Fund's assets must be invested in euro-denominated bonds. The management can invest the remaining third in selected foreign currencies. The Fund has received several awards in the past. Most recently, it achieved first place in the category "Investment grade corporate bonds worldwide" over a period of 20 years in a comparison carried out by the editors of the business and finance magazines Euro, Euro am Sonntag, Börse Online and TIAM-Fundresearch as at 31 December 2020.

How do you achieve such a good performance?

Since the fund was launched in 1992, our expertise in currency bonds has helped us to generate additional performance alongside our investments in DM/Euro. We make investments in currencies where we assume that they will remain stable against the euro or ideally even rise. Often these bonds also have higher interest rates than euro bonds, so that you have comparably higher current interest income over the term.

How have you dealt with investments in euro-denominated bonds recently?

We turned our attention to hybrid bonds early on against the backdrop of the unfriendly interest rate environment for investors. Here we focused primarily on borrowers from the insurance sector.

What are the characteristics of hybrid bonds and why did you focus on borrowers from the insurance sector?

Hybrid bonds represent an equity surrogate for the issuing company. In terms of collateralisation, however, they come after the so-called senior bonds but before the shareholders. Many of these bonds do not have a final maturity or have an extremely long maturity. In return, however, the investor benefits from an interest rate that is considerably higher than that of the senior bonds of the same issuer. The debtor of such bonds can call them early, usually after five to ten years. If this option is not exercised, the interest coupon is reset. The trick here is to find bonds for which there is a high probability of termination, but for which the interest rate - should termination not occur - is attractive. A special situation arises with bonds issued by companies in the insurance industry. Owing to the EU's Solvency Directive II, insurance companies will no longer be able to use the capital raised through hybrid bonds as an equity surrogate from 2026 onwards; the hybrid bonds will become debt capital. Owing to the continued high interest rate, however, these bonds will become too expensive for the company for the further long maturity, making premature termination more likely.

Are there other strategies that contribute to this remarkable performance?

Our investments in convertible bonds are worth mentioning here. These bonds can be converted into shares of the company at prices fixed at the time of issue and thus benefit from rising stock markets. If the opposite occurs, the invested capital is returned at maturity. Since we have also been managing a convertible bond fund since 1996, we use this know-how specifically in LiLux Rent to optimise performance.

What is your investment philosophy for the near future?

We think it is difficult to make a serious forecast for the future at this stage of the Corona crisis. Nevertheless, we assume that interest rates in the euro area will remain low. If the economic damage of the crisis remains manageable, the stock markets could continue to profit from this. We will therefore continue to focus on investments in convertible bonds with a good credit rating and a strong bond character in order to be protected by a high bond floor in the event of falling stock markets. Another topic for us will remain exposures in foreign currencies. Against the background of a disunited European Union with ever greater tendencies towards nation-statehood, we consider the euro to be overvalued and think that foreign currency bonds can thus make a not inconsiderable contribution to the performance of LiLux Rent.

To which investors in particular do you recommend an investment in LiLux Rent and what is the minimum investment amount that should be raised?

Our target clients include wealthy private clients who see the LiLux Rent as a fixed, managed component of their bond portfolio. However, we also want to address professional investors such as asset managers, family offices and umbrella fund managers. To this end, we have also launched institutional tranches of LiLux Rent, which enables us to offer investors even more favourable conditions over and above certain investment volumes.

About Nobis Asset Management S.A.:

NOBIS Asset Management S.A., based Luxembourg, is an independent asset manager and advisor since 2007. Based on many years of experience in the international financial markets and first-class contacts to the leading investment houses, Nobis Asset Management S.A. develops individual strategies and concepts for optimal asset management together with its clients.

CV Ralf Ackermann:

Ralf Ackermann has almost 35 years of experience in the financial industry. He started his career at Deutsche Bank Frankfurt/Luxembourg, where he worked from 1987-1992. Following that he was a securities trader at Landesbank Schleswig-Holstein/HSH Nordbank for more than 15 years. In 2007 he joined Nobis Asset Management S.A. in Luxembourg as a securities trader and fund manager. Ralf Ackermann is married and has two children.