



ifund fundmanager interview



with Sander Bus, Fund Manager, Robeco High Yield Bonds

“Avoiding losers is more important than picking every winner!”

Rotterdam, February 12th 2016

ifund: *What is your fund all about and what differentiates it from your competitors?*

Sander Bus: First we have a long-term, conservative approach to high yield investing, with a structural bias to higher quality names to provide a more stable performance pattern.

Second an experienced and stable credit team with senior portfolio managers working together for well over 10 years and career-analyst model, encouraging analysts to become high-level experts in their specialization and enabling us to capture inefficiencies in valuation, risk and reward.

Third we are contrarian investors. We believe investors tend to exhibit herd mentality, which makes that investors crowd up for the same trades. By being contrarian we steer clear of the herd and prevent the risk of getting trapped with too many investors in untenable positions.

ifund: *How do you add value for your investors?*

Bus: We attempt to capture market inefficiencies through the use of a diversified set of low-correlated performance drivers:

- Credit beta positioning. An essential element for adding value to a high yield portfolio is to determine what level of risk to run at any given moment in the market cycle. We make an assessment of the expected credit environment and change the portfolio's risk profile (credit beta) accordingly. As a result, the portfolio is to benefit from (or to weather against)

the stage of the market cycle our team is anticipating.

- Credit issuer selection. We use a combination of fundamental analysis and a proprietary quantitative bond selection model to target mispriced bonds and instruments. The universe of eligible bonds is split in three buckets: large caps, listed small caps and private small caps. Each bucket is analyzed by the subset of research techniques that best suits the specifics of that segment of the high yield market.

ifund: *How do you generate investment ideas?*

Bus: We base our investment ideas on combined fundamental analysis (fundamental scores) and an assessment on relative bond valuation by the portfolio managers. Our analysts are continuously screening their sectors for opportunities. But key element for High Yield investing is that is more important to avoid the losers than to identify winners.

ifund: *How is your team structured and who is responsible for the investment decisions?*

Bus: Robeco's High Yield capability is managed by the Credit team, consisting of 9 portfolio managers 17 credit analysts, 4 quantitative researchers and 5 traders. The portfolio managers (Sander Bus, Roeland Moraal and Christiaan Lever) are responsible for the management of all High Yield portfolios, whereas the analysts cover the team's research effort. The analysts cover issuers across the rating spectrum from investment grade to high yield and are clustered around sector specializations. This al-

lows for an efficient transfer of knowledge from the analysts to the portfolio managers in the team.

On average, the team members have an experience in the asset management industry of 16 years, of which 8 years with Robeco. In addition, the head of the team, and the lead portfolio manager for Robeco High Yield Bonds, Sander Bus, has been a team member since inception of the High Yield team in 1998. As a result, our Credit capability benefits from a team of professionals with hands-on experience over the full credit cycle.

***ifund:** In which market environment does your investment style work best?*

Bus: Our investment style is to construct a portfolio that avoids losers. We take a long investment horizon and allocate to companies that we believe will survive throughout the cycle. Our relative performance versus the market will typically be the best during bear markets, we outperformed 450bp in 2015, but we can also deliver alpha in bullish markets like 2012-2014 where we outperformed 146bp per year on average (gross of fees).

***ifund:** Where do you currently see the best potential and largest risks in the market?*

Bus: Since the start of 2016 we have seen that the high yield markets have turned bearish and spreads have increased to very high levels. Fears of a US recession are dominating the market, and although we won't try to predict if there will be one, we can say for sure that a potential recession is already priced into the current spreads; they are not as high as in 2008, but they are at levels which are associated with recessions. Only an 'Armageddon situation' has not been priced in, but that's not what we expect. We therefore have a positive view on the market and have increased our portfolio's exposure to a beta overweight of 1.1. We look for buying opportunities in sectors where the sentiment or management behavior is changing for the better for bondholders, such as the metals & mining sector. We remain careful to try to pick the winners and avoid the losers. We stick to our cautious, long-term fundamental approach and subsequent quality bias, however we do screen CCC's or other high spread names that have widened beyond levels that are fundamentally justified.

- We continue to have a preference for European HY over US HY.
- Major overweights are in Banking, chemicals, Paper, Packaging and Automotive.
- Major underweights: Energy (although we are currently reducing underweight), Technology, Pharmaceuticals and US fixed line and wireless.

***ifund:** Which aspects of responsible investing do you consider in your investment process?*

Bus: One of the cornerstones of our investment philosophy is that avoiding losers is more important than picking every winner. The credit analysts perform this analysis through a structured format assessment of five different factors of which ESG is one.

We believe that in-depth ESG analysis provides deep insights into issuers, ultimately leading to a greater awareness of the negative impact of ESG factors on their economic performance and credit quality. Our prime goal in integrating ESG factors into its analysis is to strengthen the ability to assess the downside risk of our credit investments.

Each credit research report includes an interpretation of ESG-related issues, with the analysts having to weigh the importance for the determination of the fundamental score. The materiality of ESG issues will vary per investment case. In all instances, the findings are summarized in the investment thesis, clearly stating the impact on the fundamental score.

Our ESG opinion is formed in close co-operation with RobecoSAM. Using detailed assessment questionnaires and self-assessments, RobecoSAM evaluates the ability of companies to embrace change by seizing opportunities and by managing risks that sustainability developments impose on each industry. By leveraging its comprehensive database, RobecoSAM is ideally positioned to identify companies leading and lagging their peers in terms of sustainability and thus stakeholder value creation. In addition to RobecoSAM's research, we use specialized external research from firms like Glass Lewis (governance, voting) and Sustainalytics as inputs for determining the ESG profile.

***ifund:** How do you invest your own personal assets?*

Bus: My personal savings are used for my pension so that is a long term goal (at least 20 years). High yield bonds fit perfectly in my personal investment objectives. So I invest a big part of my private wealth in the Robeco High Yield fund. The balance is invested in cash and equities.

***ifund:** What do you do in your leisure time? What is your preferred hobby and why?*

Bus: I like to run a few times a week to stay fit; I ran my first semi-marathon in December. I also like to coach the field hockey team of my daughters and I like to visit my favorite football team Sparta Rotterdam. This is the oldest football club in The Netherlands (1888) and they are currently in the first position of the second division.

About Robeco

Robeco, a global asset manager, offers a mix of investment solutions within a broad range of strategies to institutional and private investors worldwide. As at 31 December 2015 the company has EUR 268 billion in assets under management, of which 47% are institutional. In 2015 Robeco had a net profit of EUR 237 million. Robeco's head office is located in Rotterdam, the Netherlands. The company has a strong presence in the US, Europe and Asia and a developing presence in key emerging markets such as India and Latin America. Robeco was founded in 1929 in the Netherlands as 'Rotterdamsch Beleggings Consortium'. Today, Robeco is the center of asset-management expertise for ORIX Corporation, Robeco's majority shareholder based in Tokyo, Japan. The following subsidiaries and joint ventures form part of Robeco Group: Robeco Institutional Asset Management, Robeco Investment Management, Corestone Investment Management, Harbor Capital Advisors, Transtrend, RobecoSAM and Canara Robeco Asset Management Company. More information is available at www.robeco.com.

About ifund

ifund provides fund research, manager selection and asset management based on liquid investment funds. Clients include banks, asset managers, family offices, pension funds and insurance companies in Europe. ifund has signed the UN Principles for Responsible Investment and integrates sustainability criteria in fund analysis.

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