

ON THE RECORD: BY LISA ABRAMOWICZ

Investors Once Shy of New Issues Regaining Interest Amid Turmoil

Junk-debt buyers that shunned most new bond sales this year are regaining interest as yields widen amid global economic unease.

Funds run by **RidgeWorth Capital Management**, **Ivy Investment Management**, and **Neuberger Berman Group** are among those that bought fewer initial debt-sales this year compared with the same period in 2010, according to interviews with their managers. They ranked among the best-



Thomas O'Reilly

performing speculative-grade debt funds for current income and total return in the U.S., according to data compiled by Bloomberg.

Investment advisors backed away from the freshest bonds as yields tightened to unprec-

edented lows last month and as speculative-grade businesses sold \$174.6 billion of the debt, more than ever before for the period, according to data compiled by Bloomberg. New debt is becoming more attractive as companies are forced to pay higher yields and tighten covenants amid concern that the economic recovery is slowing, said Neuberger Berman Group's **Thomas O'Reilly**.

"We generally avoided all the new issue in the last few months," said **Bryan Krug**, of **Waddell & Reed Financial**, who oversees the \$2.3 billion **Ivy High Income Fund**. "We found that the covenant packages were getting poorer. We thought the deals were pricing right on top of where they should trade."

Junk-bond investors demanded 5.65 percentage points of extra yield over Treasuries as of June 16, up from 4.65 percentage points more in April, according to **Bank of America Merrill Lynch** index data. High-yield notes lost 1.3 percent this month as Europe headed closer to a possible sovereign default. The U.S. unemployment rate rose to 9.1 percent last month, the highest level this year.

Speculative-grade businesses sold \$44.7 billion of notes in May, a record volume. They have taken advantage of interest rates at record lows since December 2008, which has encouraged investors to buy riskier assets and made it easier to refinance debt.

Proceeds from 61 percent of high-yield bonds sold this year went toward refinancing, which has helped reduce the amount of debt set to mature through 2014 by \$512 billion since the start of 2009, according to **JPMorgan**.

"You don't want to buy the entire market from a new issuance standpoint, you want to be selective," said **Brian Nold**, of **Seix Investment Advisors**, who co-manages



Bryan Krug

the \$504 million **RidgeWorth High Income Fund**. "Given how busy it's been, it does tend to overwhelm the investor base at times."

Continued on next page

Best-Performing High-Yield Mutual Funds BLOOMBERG RANKINGS

MANAGEMENT STYLE: CURRENT INCOME

Total Return as of June 2

RANK	FUND	COMPANY	SCORE	MANAGER(S)	1-YR.	3-YR.	5-YR.	TOTAL ASSETS \$M	RANK 1 YEAR AGO
1	RidgeWorth High Income	RidgeWorth Capital Management Inc.	97.46	Brian Nold/Michael McEachern	21.28	12.93	10	530.690	1
2	Ivy High Income	Ivy Investment Management Co.	96.15	Bryan Krug	18.12	11.84	9.41	2332.373	2
3	Janus High-Yield	Janus Capital Management LLC	93.36	R Gibson Smith/Darrell Watters	18.86	10.71	7.92	1855.865	19
4	Waddell & Reed Advisors High Income	Waddell & Reed Investment Management Co.	91.12	Bill Nelson	19.12	10.1	7.9	1541.442	12
5	Prudential High Yield	Prudential Investments LLC	90.83	Paul Appleby	17.21	10.71	8.64	1831.958	3
6	T. Rowe Price High Yield	T Rowe Price Associates Inc.	90.16	Mark Vaselkiv	17.82	10.75	8.41	8544.057	5
7	Nuveen High Income Bond	Nuveen Fund Advisors Inc.	89.14	John Fruit/Jeffrey Schmitz	20.26	10.29	8.26	507.783	14
8	Fidelity High Income	Fidelity Management & Research Co.	89.07	Frederick Hoff Jr.	17.48	10.48	8.72	4826.311	6
9	Legg Mason Western Asset High Income	Legg Mason Partners Advisor LLC	88.98	Stephen Walsh/Michael Buchanan/Keith Gardner	19.9	10.8	8.26	486.722	10
10	Transamerica AEGON High-Yield Bond	Transamerica Asset Management	88.35	Bradley Beman/Benjamin Miller/Kevin Bakker	16.72	11.47	8.67	769.415	4
AVERAGE ASSET WEIGHTED RETURNS					12.21	6.50	5.23		

Source: Bloomberg. See Page 5 for methodology

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Continued from page 4

Neuberger Berman has purchased junk bonds from about one-fifth of this year's new issuances, compared with up to three-fifths of such offerings last year, said O'Reilly, who co-manages the \$1.14 billion **Neuberger Berman High Income Bond Fund**. He saw "better opportunity in the secondary market," he said in a telephone interview.

Companies marketing bond offerings now need offer extra yield and stricter covenants to attract investors, who pulled \$2.1 billion from high-yield bond funds last week, according to data compiled by **EPFR Global**.

"That is more to our advantage," O'Reilly said.

High-yield bond mutual funds have seen \$10 billion of inflows this year compared with \$12.5 billion last year, ac-

ording to a June 10 report by JPMorgan analysts led by **Peter Acciavatti**, citing



Brian Nold

Lipper FMI. Demand for the debt drove yields down to an unprecedented 7.19 percent last month.

As bond prices rose, Krug said his fund steered away from new issuances in favor of buying debt on the secondary market and bank loans.

"As the market is weakening, now we're going back and buying stuff other people are selling," he said.

Investors may find more value in debut issuances than routine bond-sales from speculative-grade companies, Nold said.

"A name that's new to the market, new issuers that other investors might brush aside because they're too busy looking at other things," he said. "That's really when you can dig in and do some serious credit work and find an attractively priced issue."

MANAGEMENT STYLE: TOTAL RETURN

Total Return as of June 2

RANK	FUND	COMPANY	SCORE	MANAGER(S)	1-YR.	3-YR.	5-YR.	TOTAL ASSETS \$M	RANK 1 YEAR AGO
1	Columbia Income Opportunities	Columbia Management Investment Advisers LLC	96.89	Brian Lavin	22.8	12.58	9.83	2091.228	6
2	Neuberger Berman High Income Bond	Neuberger Berman Management LLC	91.96	Ann Benjamin/Thomas O'Reilly/Russ Covode	18.56	13.37	10	1162.984	3
3	Metropolitan West High Yield Bond	Metropolitan West Asset Management	90.92	Jamie Farnham/Laird Landmann/Gino Nucci/Stephen Kane	16.69	13.21	9.64	2258.575	1
4	Fidelity Capital & Income	Fidelity Management & Research Co.	88.09	Mark Notkin	21.26	12.7	10.32	11012.87	5
5	AllianceBernstein High Income	AllianceBernstein LP	87.54	Paul DeNoon/Gershon Distenfeld/Douglas Peebles/Matthew Sheridan/Marco Santamaria	18.13	12.23	11.07	3251.875	2
6	HC Capital Trust Fixed Income Opportunity Portfolio	Hirtle Callaghan & Co.	84.41	Daniel Taylor/J Christopher Gagnier/Timothy Vile	21.84	10.57	8.56	471.632	15
7	USAA High-Yield Opportunities	USAA Investment Management Co.	83.43	R Matthew Freund/Julianne Bass	19.58	11.81	8.53	1735.159	8
8	Artio Global High Income	Artio Global Management LLC	81.7	Greg Hopper	17.67	11.15	9.12	3654.328	7
9	Lord Abbett High Yield	Lord Abbett & Co. LLC	81.41	Christopher Towle/Steven Rocco	17.93	11.59	8.81	1522.633	10
10	Columbia High Yield Bond	Columbia Management Investment Advisers LLC	80.42	Jennifer Ponce de Leon/Brian Lavin	18.25	11.39	8.38	1744.233	12
AVERAGE ASSET WEIGHTED RETURNS					17.26	9.92	8.13		

Source: Bloomberg

METHODOLOGY:

Bloomberg Rankings' Mutual Fund Rankings are limited to active, open-end retail mutual funds domiciled in the U.S. with total assets of more than \$250 million. They do not include institutional-class, index, market-neutral, sector, contrarian and collective funds. Scores are based on a model that equally weights five criteria: total returns for one, three and five years and Sharpe ratios for three and five years. Sharpe ratios show how well the return of a fund compensates investors for the risk taken. The highest possible score is 100. For the Current Income Funds there were 63 in the universe and for Total Return there were 28.

WHO GETS PAID BEFORE YOU DO?

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