

RWC Asia Convertibles: Convexity in Action

March 2018

It is well known that convertibles have a positive correlation to volatility and tend to deliver attractive risk-adjusted returns under periods of higher volatility. This correlation can be demonstrated in the two Bloomberg

snapshots below, of MSCI Asia Ex and our Fund. In this analysis, we looked at recent peak to trough moves in early February, then the subsequent rally decline and further rally and have summarised the returns in the following table.

	MSCI	RWC	Participation
26 January to 12 February	-9.58%	-4.78%	50%
12 February to 26 February	5.62%	3.59%	64%
26 February to 5 March	-3.89%	-1.12%	29%
5 March to 15 March	4.87%	2.23%	46%
26 January to 15 March	-3.75%	-0.29%	8%
YTD (as of 15 March)	4.71%	3.40%	72%
Volatility (YTD annualised)	12.7%	6.3%	

Source: RWC, Bloomberg, as at 28 February 2018

The above table shows that the Fund has so far captured over 2/3 of the upside and has protected very well during sell off in early February. Relative to equities, the volatility has also been very low which means the fund should continue to screen well on any risk-adjusted metrics such as Sharpe ratio.

We believe the environment is ideal for the asset class given our expectation that the higher volatility and rate environment will persist for the foreseeable future, making this a potentially attractive time to be invested in the asset class.

In our view, this is due to two key reasons:

- Fund structure – The Fund has been structured to optimize the convexity inherent in the asset class.
- Active security selection

No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

FIGURES 1 & 2:
MXASJ Index v/s RWCACBU LX



Source: RWC, Bloomberg, as at 28 February 2018

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Please contact us if you have any questions or would like to discuss any of our strategies.

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