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FUND VIEW-Salm-Salm sees upside for convertible bonds

By Christoph Steitz

SALM&SALM/CONVERTIBLES (FUND VIEW)

- New legislation not yet priced in
- Asset class has outperformed at low volatility
- Invested in convertibles of Kloeckner, SGL Carbon

FRANKFURT, Oct 22 (Reuters) - New German legislation has not been priced into the market for convertible bonds, making this investment especially attractive during the current upswing and beyond, according to German wealth manager **Salm-Salm & Partner**.

"Convertible bonds are in a renaissance and this renaissance will continue," said its head, Michael zu Salm-Salm. He pointed a recent ruling by the German Federal Court of Justice that makes it easier for companies to issue convertible debt by setting the price of new shares tied to such issues.

"We believe that such developments are currently not fully priced in to the market," zu Salm-Salm said.

The company's FG&W Fund Salm Global Convertible Conservative Fund has gained about 30 percent since the beginning of the year and now has a volume of 24 million euros (\$35.85 million).

Its investments include convertibles of German metals distributor Kloeckner & Co, graphite specialist SGL Carbon and Swiss Graubuendner Kantonalbank.

Convertible bonds usually offer a lower coupon than straight corporate bonds, but can be converted into shares of the issuer. That way, investors can also benefit from a rising share price.

The convertible bond market -- estimated at more than \$600 billion -- has seen increasing demand over the past months, with German companies such as Salzgitter and Air Berlin using it to get cash, zu Salm-Salm said.

In Europe alone, convertible bonds worth 46 billion euros have been issued in 2009, he added.

German drug wholesaler Celesio said this week its convertible bond was 10 times covered based on a deal size of 350 million euros.

"At low volatility, convertible bonds have over the last 15 years outperformed all other asset classes," zu Salm-Salm added. (\$1=0,6694 Euro) (Editing by Jon Loades-Carter)