NEW RESEARCH REVEALS IMPACT OF FED'S TAPERING ON EUROPEAN INSTITUTIONAL INVESTORS' ASSET ALLOCATIONS

- Nearly three out of five (58%) say tapering has made it more difficult to secure returns in fixed income
- Despite this, over a quarter (27%) of investors currently expect to increase their allocation to bonds over the next three years
- Aquila Capital's ACQ Risk Parity Bond fund reaches first anniversary with 3.67%* year-to-date return

London, 18 June 2014

A new study[1] among European institutional investors reveals that the majority (58%) of investors believes that the Federal Reserve's tapering programme has made it more difficult to secure returns from fixed income compared to only 14% who think it has created opportunities.

Despite this, over a quarter (27%) of investors currently expect to increase their allocation to bonds over the next three years, around the same number as a year ago (29%)[2]. One in three (33%) expect exposure to remain the same compared to 31% in 2013 and 37% expect to reduce it, down on 31% who said so last year.

According to the research, commissioned by Aquila Capital, one of Europe's leading independent alternative asset managers, investors still see rising interest rates and low yields as the greatest challenge to investing in bonds, with 85% seeing these factors as important or very important, with 80% and 75% respectively viewing them as this a year ago. While sovereign base rates have converged to similarly low rates over recent decades, 48% of institutional investors expect these to diverge between countries going forwards.

When asked to identify the most important factor currently generating the biggest portion of returns from investing in bonds, no clear trend emerged as investors selected a variety of options: 29% of investors chose interest rate movements , carry ranked second (22%), currencies third (18.6%) and improving credit spreads fourth (13.6%). One in six (17%) investors did not know which factor was most important.

A slightly higher proportion (14%) has reduced exposure to higher quality investments such as government and corporate bonds than has increased it (10%).

The research was commissioned by Aquila Capital to mark the one year anniversary of its ACQ - Risk Parity Bond Fund (the 'Fund'), the world's first Risk Parity Strategy to focus solely on fixed income. Its objective is to offer investors long term stable returns regardless of the twists and turns in the economic and fixed income cycle. It targets a return of cash plus 3% with annualised volatility of approximately 3%. Year-to-date, the Fund has generated a return of 3.67% which is line with strategy.

The Fund applies a systematic allocation method that does not rely on forecasts or duration targeting, while being as diversified as possible across instruments, return drivers, geographies and durations. It does this through investing with equal risk weightings across four types of fixed income asset that have a low correlation with one another. These are Government Bonds, Corporate Bonds, Carry Positions in Emerging Markets and Inflation-linked Bonds. These assets also have varying correlations with the economic and fixed income cycles. As such, this combination allows positive long term return targets regardless of whether rates are rising, falling or flat.

Commenting on the research, Stuart MacDonald, Managing Director at Aquila Capital, said: "Fed tapering has caused bond investors to make significant changes to their fixed income allocations. Despite the challenges created by rising interest rates and low yields, appetite for the asset class remains strong. The growing popularity of the AC Risk Parity Bond Fund demonstrates the Fund's ability to navigate difficult market conditions and underlines the importance of adopting new and innovative approaches to address the issues and opportunities created by the evolving fixed income market."

The Fund, which is set up as a Luxemburg-based UCITS (SICAV) has a minimum investment of EUR 50,000. It applies the same well-proven risk parity allocation principles as Aquila Capital's long established and successful multi-asset AC Risk Parity strategy (including the AC Risk Parity 7, 12 and 17 funds), which have delivered strong risk-adjusted returns since 2004, including positive performance in 2008.

*Data as at 31 May 2013
[1]Source: Research carried out among 75 institutional investors across Europe between June 2 -12, 2014
[2]Source: Research carried out among 165 pension institutional investors across Europe between June 3 -10, 2013

About Aquila Capital
Established in 2001, Aquila Capital is a leading provider of alternative and real asset investments. The firm focuses on distinctive areas of investment that are supported by macroeconomic fundamentals and offer the potential to generate uncorrelated, above average returns on a sustainable basis. Concentrating on these areas, Aquila Capital draws on the expertise of ten highly qualified, independent investment teams to generate a long term edge.

Aquila Capital is part of the Aquila Group, headquartered in Hamburg with investment management and operations in nine offices including Zurich, London, Frankfurt and Singapore. The Group currently has over 250 staff and EUR 6.9 billion assets under administration.

Further information can be found at www.aquila-capital.com.

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