
Pimco allows equities investments in Total Return bond fund

By Editor Test *Wed, Dec 22, 2010*

The move follows concern that the long running bull market in bonds is in bubble territory and that inflation and economic growth will damage future returns, according to a report in IPE.com.

Pimco's US\$ 250bn (€160bn) Total Return fund, the world's largest bond fund, has expanded its investment remit to include up to 10% of its total assets in preferred stock, convertible securities and other equity-related securities.

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The Pimco Total Return bond fund, run by Bill Gross, experienced a US\$2bn (€1.2bn) outflow in November, the first in nearly two years, having achieved an average return of 8% a year since its inception in 1987.

A number of bond fund managers have moved towards investing in a wider range of bond, including securities linked to equities, or with characteristics of both bonds and stocks.

Ros Altmann, director general of Saga, said that there was a real risk of the bond market bubble being ignored. "Pension funds have been encouraged to switch into bonds for 'safety' and 'risk reduction', but if this is a bond market bubble, this is not necessarily the right thing to do.

"Many pension funds will look back and realize that this was a huge bond market bubble - with the Bank of England forcing long-rates down by buying gilts and the US Fed forcing rates down in the US with its own quantitative easing," she said.

"The best place for institutional money at the moment is in high yielding equities with strong balance sheets and overseas markets where growth is not so constrained."