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Cautious Corner: A Close call for a promised enhancement

by **Simon Evans** on Jul 10, 2006 at 07:00

Trying to root out a bond fund manager able to consistently outperform the efficient UK government bond market is no easy task. For many investors index-tracking funds remain the best option.

But Close Finsbury reckons they have the answer in the shape of Ian Williams, manager of its £119 million Enhanced Gilt fund.

Williams can boast a 25-year history in bonds and has, since 1995, managed money for investors through Charteris Treasury Portfolio Managers, which runs the Enhanced fund on an outsourced basis for Close Finsbury.

A cursory look at the fund shows it currently invests in the longer end of the gilt market, with just six holdings. Around 10% of the fund is currently positioned in cash.

Where Williams believes he can enhance the return for investors is through use of derivatives, specifically through the writing of covered call options.

It is a strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate increased income from the asset.

This is often employed when an investor has a short-term neutral view on the asset and for this reason holds it long and simultaneously has a short position to generate income from the option premium.

However, for Williams the strategy has not delivered sufficient enhancement – since inception the fund has returned 9.5% versus the benchmark FTSE A British Govt All Stocks TR performance over the period of 16.4%.

However, Williams said 2006 had, so far, been much more encouraging. 'In 2006 it has performed really well so far – it's an ideal product for investors who have to hold bonds in a bear market environment.'