# Michael Korber: How to unlock value in volatile credit markets

**By Perpetual Asset Management**

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Perpetual's head of Credit & Fixed Income Michael Korber explains how his team has been harnessing market volatility to generate returns.

- Korber sees opportunities in the current volatility
- Credit and fixed income offers a universe of opportunities
- Find out more about Perpetual's credit and fixed income capabilities

The outlook for credit and fixed income remains delicately poised, despite improved lending conditions and an easing macroeconomic outlook.

Geopolitical headwinds, prevailing inflationary pressures, and a higher-for-longer view on rates continue to place pressure on markets – and that isn't likely to immediately change, says Perpetual's Michael Korber, managing director of Perpetual's credit and fixed income team.

But despite a "fairly defensive attitude to the risk market" in recent times, Korber sees opportunities in the current volatility.

And he should know how to spot them. Korber is one of Australia's most experienced fixed-income investors with more than 40 years in the industry – almost half of that time at Perpetual.

"We're still in a bit of a honeymoon period and people have been pretty optimistic for a while," says Korber, who oversees Perpetual Credit Income Trust and the Pure Credit Alpha Fund.

"But we've had a fairly defensive attitude to the risk market for the past 18 months.

"While our credit outlook has become slightly more neutral-to-positive, a lot of the macroeconomic impact from tightening is only beginning to flow through – it's about halfway through the cycle."

**Taking risks that make sense**

Despite his defensive view, Korber isn't deterred by a little volatility – here's why.

"When things are going well, it's harder to find a bargain because the prices of investments tend to be relatively stable and predictable.

"But volatility generates opportunities for us because when there's a shock to the system, people are adjusting portfolios and funds are having redemptions, you suddenly have a lot more going on.

"Like any stressed market, if you're in a position to invest, you'll invest cheaply – for instance, in buying a cheap bond with a 10-year life, you should have a decade of above-market returns locked in."

**Read more from Perpetual's fixed income team**

- Greg Stock: Why Australian fixed-income markets are looking attractive compared to their global peers.
- Vivek Prabhu: Credit premiums look attractive right now – if you have a good active manager.

In these conditions, an effective risk management strategy is important to comfortably and confidently navigate markets.

“A lot of people are not particularly rational investors – they want entertainment and that’s why they tolerate more risk than they rationally should,” he says.

“We want to take risks, we want to see volatility, we want to see opportunity – but we don’t take crazy risks because it never pays.

“If we identify a deal that we think makes sense – if it has additional risk but is well-managed and well-priced – that’s when we will allocate capital into taking that risk.”

The Perpetual team looks for quality, resilient assets that have the potential to endure economic challenges and have proven fruitful for long-term performance.

“What’s helped us drive strong returns in the past 12 months is focusing our portfolios on businesses with a good market position, pricing power and a good management team.

“We’re required to hold a good chunk of investment-grade securities in our portfolios, like banks, Woolworths, big miners, corporate Australia – the stuff you know will pay you nicely over time.

“In that time, we’ve also taken the view that the inflation cycle, the tightening of interest rates, will impact certain sectors of the market – real-estate development, smaller enterprises with poor pricing power, and second-tier market exposures that are at risk and which we generally try to avoid.”

**The freedom to move with the market**

Over the past 18 months, the Perpetual Credit and Fixed Income team has been actively invested – embracing market fluctuations to generate returns for investors.

That’s been possible, in large part, due to a flexible and well-diversified investment mandate – an approach Korber says can help portfolio managers position themselves defensively in periods of volatility, while also taking advantage of opportunities as they arise.

The Global Financial Crisis was the starting point for this approach.

During this time, portfolio managers working with more rigid investment mandates couldn’t tap into the abundance of opportunities in the market following the crisis, Korber says. If

anything, their more restrictive strategies meant they were forced to participate in deals whether they liked them or not.

“The model for our funds was built post-crisis, recognising that the previous model we had for investing didn’t give us enough scope to take advantage of volatile and disruptive markets,” he says.

Unlike some other active managers, a more flexible mandate also allows Korber’s team to be more selective when taking on more risk or shifting into more conservative assets in a given environment.

“A flexible mandate is one of the factors that really helps us because we’re not forced into doing deals when we don’t want to,” Korber says.

“Whereas if your fund is tied to just one asset class, you can’t go somewhere else – you’ve just got to participate in the deals.

“Focusing on high-quality assets and having the ability to move between different assets where we see the relative value – at any point – helps generate better, consistent, better-than-investment-grade returns, while only taking on marginally more risk than an investment-grade portfolio.”

**Tapping into a bigger universe**

Credit and fixed income assets can offer investors a degree of stability compared to other assets, like equities, which tend exist higher up on the risk-reward spectrum.

You could “double your money or lose it” in equities, while the returns potential for fixed income investments is capped due to the contractual nature of their returns.

However, credit and fixed income offers a larger investment universe, he says.

“The fixed-income universe is much larger than the equities universe and there are always opportunities there – assets you can’t access anywhere else.

“You’re generally getting a lower rate of return than you’d find in equities. But if you put a dollar into a bond, I can tell you precisely what you will earn for the next three or four years – it’s that predictability that adds value to people’s lives.

“What I think our process delivers is a clearer line of sight as to how much money you’ll have in five years’ time.

“It’s just about having enough profile, resources, connections, and relationships to the market to access those opportunities.

“We have a much broader investment mandate, we have a much longer history and track record, we have more alternatives and, therefore, we think we’re in a good position.”

*About the Perpetual Credit Income Trust (PCI)*

*About Pure Credit Alpha Fund (PCA)*

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