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Dutch fund adds discounts to keep delta low

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Bufferfund, a Dutch open-ended investment fund which invests in (capped) bonus certificates listed in Germany to achieve its aim of outperforming the Eurostoxx 50 in the long term, has begun to add discount certificates to its portfolio to keep the delta below one.

"A month and a half ago we first started buying discount certificates," said Marcel Tak (*pictured*), fund manager, Bufferfund. "Until then we had only focused on bonus (and capped bonus) certificates, but these certificates have become slightly less interesting because of the sharp fall in volatility."

It is impossible to fully invest in bonus certificates if you want to keep your losses to a minimum in periods of low volatility, according to Tak. "That's why we have started to partly invest in discount certificates. These products are similar to bonus certificates but the difference is that if the markets decrease by, say, 20% and you breach a certain barrier, with discounts you do not lose 20%, but you only start losing after the first 20% loss," said Tak. "That is considerable less risky, but ultimately the return perspective is much smaller."

Bonus certificates provide a certain return if the underlying index does not fall below a predetermined barrier, however, according to Tak, the lower the volatility, the lower the return on these certificates, while at the same time the downward risk does not change. "Once the barrier of 20% is breached you have a 20% loss on a bonus certificate. With low volatility there is less perspective on a return while the chance of losing money remains the same," said Tak.

"That is why we have decided to include less bonus certificates in our fund," said Tak. "We work very risk driven. If we had a large amount of bonus certificates in our portfolio we look at what would happen to our fund if the market was to fall by 10% at once." Tak wants the effect to be much smaller than the 10% fall in the index itself: "It depends a little bit on the market conditions how much it should be, but currently I would say around 5%. If the stock market falls by 10% we want to limit our losses to a maximum of 5%."

"By combining the bonus and discount certificates, we can achieve exactly what we want," said Tak. "Namely that we keep the funds 'delta' much smaller than one, currently close to 0.5. Of course, there is also a risk attached to the discount certificates, so we make sure we also have a lot of liquidity in our fund," he said.

"The combination of (capped) bonus certificates, discount certificates and liquidity provides us with the risk we want. That is what we target. We really focus on risk," said Tak.

In the last month, the fund has registered a significant growth in size, from €31.2m at the end of February, to €41.7m on March 31, an increase of almost 35%. Since Bufferfund was first launched in August 2016 there has always been a steady increase in the size and the number of participations, according to Tak. "We got into a conversation not too long ago with an investor who is very enthusiastic about our fund and who has taken up a large stake. It is a larger party," he said.

"Given the interest in our fund we don't rule out that we will see substantial growth this year," Tak concluded.

Koersontwikkeling

