Eurozone bonds: how a Greek debt duo rose to the top of the table

By Nisha Long on 05 May 2015

The eurozone bond sector has proven a troublesome terrain to tackle over the past three years, which makes the fact two Greek debt specialists are leading the pack even more staggering.

The managers in question being Aris Papageorgakopoulos and John Gikas of Eurobank Asset Management, who co-manage the €17.2 million (LF) Greek Government Bond fund.

The duo launched the fund at the height of the eurozone's debt crisis in March 2009 and focused solely on Greek debt issuance.

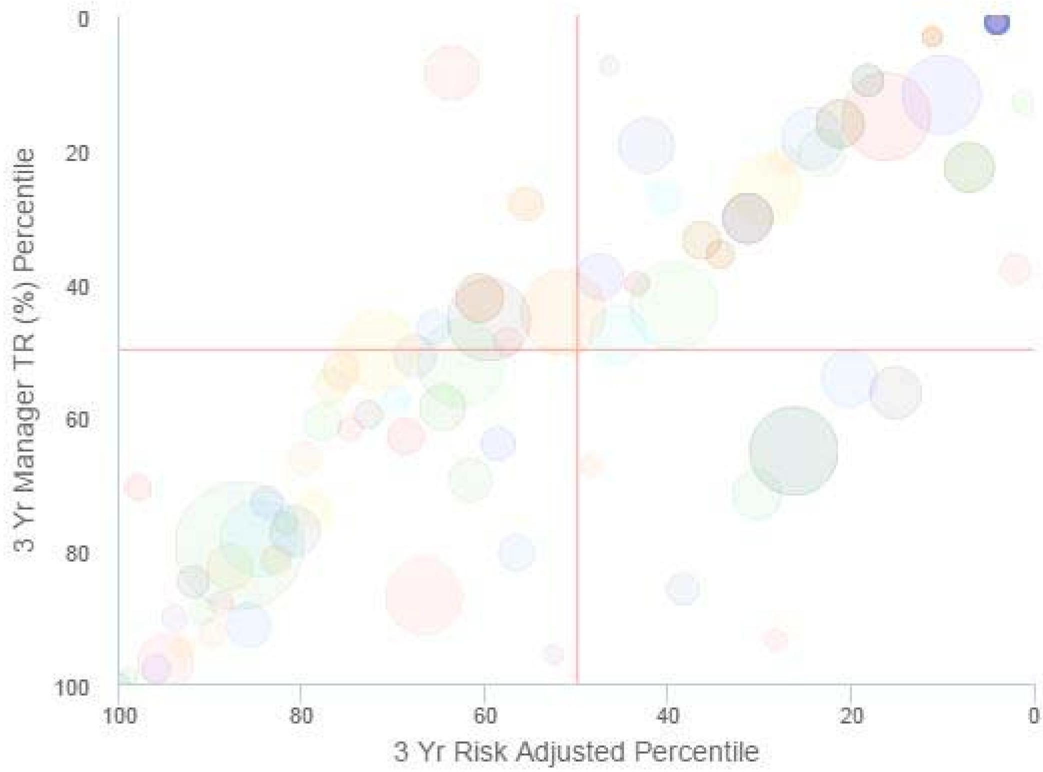
Despite this narrow – and some might say ultra-contrarian focus - the duo have returned an impressive 184% over the three years to the end of March 2015.

This niche strategy has helped them top the Bonds - Eurozone sector over this period based on a total return basis, sitting comfortably ahead of a peer group where 90 managers boast a three-year track record.

Our risk-adjusted analysis ensures managers are benchmarked against a relevant index. Given that the duo has a positive Citywire Manager Ratio, it shows they have been able to outperform the surging market. So what has been their strategy to play the riskiest debt market in the eurozone?

Three-year Total Return vs Three-year Risk-Adjusted vs Manager Market Share

The purple dot in the top right hand corner indicates the duo's performance compared to their peers, as well as their respective market share which is indicated by the size of the dot.



Tackling a risky market

Looking back to February and March 2012, the Greek sovereign bond market made a strong comeback following the debt restructuring, which also saw private sector involvement (PSI) finally agreed upon.

At that time, the pair was well-positioned to capture this strong performance of Greek bonds, which was emphasised following the June 2012 election, however, more recent events have provided more challenges for the outperforming pair.

Since September 2014, the Greek bond market has slumped by around 28% but Gikas and Papageorgakopoulos said the portfolio’s defensive positioning has helped the fund not undershoot the market.

The duo avoided last year's five- and three-year bond issues which were trading at high cash prices. Instead they focused on the longer maturities of the PSI bonds in order to insulate the fund from potential market extremes.

'This strategy paid out well during the last of quarters and we have recently initiated positions in the front-end at attractive prices and yields above 15%,' Papageorgakopoulos said.

During December 2014 and January 2015, they were around 70% invested in longer-dated bonds and have since started to increase exposure. This is as prices have declined to levels the pair consider very attractive should their base-case scenario materialize.

Greek debt: an investors' choice

So far, this strategy has paid off for the pair but what does the future hold for Greek government bond debt and their fund in the future?

Greece remains locked in efforts to resolve its looming liquidity crisis and is not currently sitting high on investment agendas. However, the Eurobank pair remains positive on a normalisation in the wake of post-electoral talks and also eye the attractive valuations in the market.

'The recent elections and especially the run-up to the elections saw the bond market taking a hit, which is only natural given the sensitive state of the Greek recovery and the ongoing negotiations.'

'We believe the accommodative monetary stance in the whole of eurozone, along with the attractive valuations in the Greek economy, will be conducive to positive investment flow in the quarters to come,' Papageorgakopoulos said.

Gikas and Papageorgakopoulos have just gone through their six-year anniversary of running money in the Bonds - Eurozone sector and they have maintained consistent outperformance over their tenure.

Although not a market for the fainthearted they have shown active managers can still reward investors even during times of extreme volatility.