Tony Huang talks about convertible bond funds and the fixed-income market with Gregg Greenberg at the November 6, 2019 AICA Bootcamp and Round Table

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Financial reporter Gregg Greenberg interviewed Tony Huang, Associate Portfolio Manager at Advent Capital, at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.

Tony Huang

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Gregg Greenberg: Tony, how do you think the AICA is going to benefit the closed-end fund universe?

Tony Huang: Most closed-end funds are actively managed, and I think more attention needs to come on that. There are a lot of benefits of active management for the various asset classes that closed-end funds operate in, and bringing more attention to the benefits of active management is really a great thing for the industry and for the investors that invest in closed-end funds.

Gregg Greenberg: And at Advent, you run a convertible bond fund. They say about convertible funds, you get paid to wait. How is it done this year? How do you manage it?

Tony Huang: First, our fund ticker is AVK; invests in a combination of convertible bonds and high-yield bonds. What's great about the convertible bond asset class, which is what Advent participates in or specializes in, is the fact that you have an option to own a stock of the company. If the stock doesn't work out, then you have a bond.

Gregg Greenberg: Get paid to wait, like I said.

Tony Huang: The coupon in the convertible bond allows you to get a little bit of income, but also to wait out to see if the equity works. When the equity works, you get the equity, you get a participation in the appreciation of the equity that has led to very nice returns for convertible bond investors over the last few decades.

Gregg Greenberg: How do you manage your fund compared to the way other convertible bond firm managers manage their funds?

Tony Huang: Right, so if we look at the convertible bond universe, there's three types of convertible bonds, and there are ones where the option's close to the money. Where the option, you can participate in the upside but not get hurt by the downside. Those options, those convertible bonds, have the most participation but also downside protection. We don't invest in convertible bonds where the equity is in the money and they act like stocks, and we don't invest in convertible bonds where their options are out of the money and they act more like bonds. The bonds that are in the middle, where the options are close to the money, are the ones that really provide investors the most value.

Gregg Greenberg: It's a Goldilocks strategy. You like them just right.

Tony Huang: That's also a good reason to highlight the importance of active management. There are ETFs that invest in convertible bonds, but they invest in all three types. If we focus on the one type where the options are close to the money, then you'll realize the most value.

Gregg Greenberg: Okay, now what's your outlook for 2020 with regard to the fixed-income market?

Tony Huang: We think that interest rates have come down quite a bit, but the U.S. economy is reasonably healthy. There is a case for interest rates to rise, and most would say that's not great for the fixed-income investor, but in the convertible bond asset class, we think that that could actually really be good because of the equity tie. When interest rates have been rising, one of the best performing fixed-income asset classes over time has actually been convertibles, because they have a reaction and a sensitivity to the equity markets. As a result, when interest rates are rising, it's usually because the economy is healthy, and there's a lot of demand for borrowing by companies and they're appreciating over time. Yes, fixed income investors may have some headwinds if interest rates rise in 2020, but we think convertible investors will do very well in that scenario.

Gregg Greenberg: All right, we're going to watch for it. Thanks a lot for coming on and talking about it.

Tony Huang: Great to be here. Thanks.

Recorded on November 6, 2019

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