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DoubleLine investor Gundlach issues junk bond warning

High profile fund manager highlights ‘problem’ following Third Avenue difficulties

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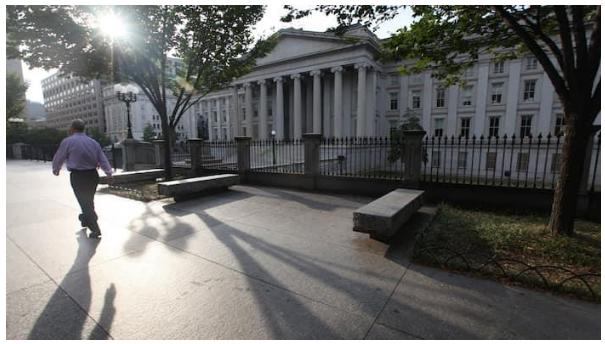
by: **Eric Platt** *in New York*



Jeffrey Gundlach, the high profile investor behind DoubleLine Capital, warned investors on Tuesday that it was still too soon to invest in US junk bonds as redemptions threaten the asset class.

Mr Gundlach said the decision by Third Avenue, the US asset manager that closed one of its credit funds last year, was a “problem” for the high-yield bond market and could spur further redemptions as investors digest fourth quarter returns.

Third Avenue sent a chill through fixed income markets last December when it notified investors in its then-$788m Focused Credit Fund that they would no longer be able to withdraw funds, instead receiving a stake in a wind-down vehicle that would sell its assets and meet redemptions over time.

The move was followed quickly by the closure of a fund managed by Lucidius, and the decision to bar redemptions from a Stone Lion credit fund.

The Third Avenue fund held more than a third of its assets in bonds that did not carry a credit rating, according to its most recent statement. A fifth of its assets were rated triple C — deep in speculative territory.

“Clearly the assets can’t be sold where they’re marked,” Mr Gundlach said on Tuesday, referring to the 30 per cent annual decline the Third Avenue fund reported for the year.

“There’s plenty of credit [funds] that do the same thing,” he said. “If you get a statement down 20 [per cent], I would recommend getting out. Even if you’re not concerned about the market.”

The closely followed Mr Gundlach, who is charged with guiding the $85bn under management at DoubleLine, added that investor portfolio’s “might be worth absolutely nothing” if a mutual fund they had invested in put up so-called gates, blocking withdrawals.

“I’m worried when the redemptions come in for the credit hedge funds,” he said. “It will be difficult for the market to absorb when it is already in illiquid conditions.”

Mr Gundlach added that DoubleLine could be a "buyer of junk bonds later down the line", but that it remained a "capital preservation environment, not a money making environment".

Junk bond funds recorded their first losing year since 2008 last year, sliding 4.5 per cent in 2015 as low-rated energy bond prices tumbled, according to Barclays Indices. Excluding energy, the junk index would have declined a narrower 1.4 per cent.