



## **LEVERAGED BUY-OUTS SHOULD REMIND BOND HOLDERS TO KEEP THEIR GUARD**

- **Fixed income fund managers need to be nimble to avoid debt downgrades, says Fidelity International**

**London, 19 April 2007:** The current public focus upon leveraged buy-outs (LBOs) should remind investors of the risks private equity can pose to investments in European corporate bonds, says Fidelity International, one of the leading investment management houses. Only with careful research and security selection can investors hope to avoid this negative impact upon debt quality.

Ratings agencies frequently downgrade the bonds of companies which are acquired by private equity firms because the new owners often take on further debt to leverage returns for their own investors. An increased debt burden can lead to a dilution in the quality of bonds already in issue.

Some of the more high profile European LBOs, such as that of Dutch media group VNU or Danish firms TDC and ISS, have seen the targets' investment grade debt slip to high-yield status.

**Ian Spreadbury, European Fixed Income Portfolio Manager at Fidelity International,** says "Thorough credit analysis can help an investment grade bond portfolio manager protect their holdings from leveraged buyout activity but other measures such as broadly diversifying and overweighting lower LBO-risk assets such as asset backed securities and financials are also important.

"Moreover, some corporate bond documents give investors an option to sell bonds back to the issuer in the event of a leveraged takeover. This would be positive for bonds trading below the redemption price prior to the LBO - and so in some cases investors can actually benefit from LBOs.

"As the downgrades to debt issued by leading companies like VNU, ISS and TDC illustrates, there is a dark side to private equity that can leave some bondholders with an

investment significantly diminished in value. However, with thorough credit research, sensible portfolio positioning and a detailed understanding of corporate bond documentation, bond investors can not only protect themselves but actually benefit from LBO situations.”

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**Notes to editors:**

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