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Franklin Templeton's Ukraine bond bet in the red

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Franklin Templeton, the global fund management group, has suffered losses on multibillion dollar positions in Ukrainian debt.

Ukrainian bond yields, which have an inverse relationship with prices, have risen sharply in response to instability in the country as concerns have mounted that it is heading for civil war.

Overall, Franklin Templeton holds about $6.4bn, more than a third of the country's international dollar bonds, according to filings.

Some of the group's biggest funds bought Ukrainian bonds at the end of last year, before the violence sparked the strong swings in the market, according to Bloomberg data.

The cost of borrowing on short-term international Ukrainian bonds denominated in dollars has shot up. Yields on a $1bn international bond due to mature in June have increased to 34 per cent compared with 6 per cent in early January. At one point, the yields rose to 42 per cent, an all-time high.

Longer-term borrowing costs have risen too, although not as dramatically. Yields on a $1.2bn bond due to mature in 2023 have edged up to 10 per cent, compared with 8.2 per cent in early January.

Funds managed by Michael Hasenstab increased holdings of Ukrainian international dollar debt by $252m in face value to about $3.8bn, according to data compiled by Bloomberg up to the end of December.

A person familiar with the situation said Franklin Templeton could withstand the hit to its bond portfolios. The group has the size to take what may seem like large stakes in a single country and hold those positions for as long as needed.

Mark Mobius, emerging markets fund manager at Franklin Templeton, insisted Ukraine was "in a very sweet spot" economically, Reuters reported. "They have the Europeans who want to help them and they have the Russians who want to help them."

Other investors have bought Ukrainian debt in the hope of benefiting from the big jump in yields.

Hans Humes, founder of Greylock Capital, an investor in distressed bonds, said he doubled his position in Ukraine this week.

"There's a high downside if there's a real catastrophe," Mr Humes said. "On the other hand it's unlikely, if you think the situation isn't going to descend into civil war, that they default [on bonds due in June]."

"It's a sort of hold your breath and deal with the volatility situation."

Koon Chow, an emerging market strategist at Barclays, said: "Even if you're underweight, you'll have some [exposure to Ukraine]. Events have been moving so quickly, prices have been moving so quickly that some conventional funds will be holding it . . . and will have had no time to move it to funds that are specialised in managing it."

The Franklin Templeton Global Bond Fund added $215m of Ukraine bonds due in 2017 in the three months to December, boosting holdings to $690m in face value, Bloomberg said.

The fund has returned 8.24 per cent annually over the past 10 years, which has put it among the top performers in its sector, according to data compiled by Morningstar.

Franklin Templeton did not comment.

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