

## WIDER CREDIT SPREADS...

### ...mitigated by lower government yields

**Markets.** In spite of wider credit spreads in November, benchmark return was positive (0.15%) due to lower government yields. Year to date benchmark return remained in the red (-1.37%). Chemicals, Health Care and Utilities outperformed the market in November, whereas Oil & Gas, Automobiles & Parts and Media lagged behind.

Lower duration of the immunity from corona jabs than previously expected (hoped) and lower protection levels towards new variations of the virus sparked November's spread widening. In addition, we see a risk of long-term side effects and possible adverse non-specific effects of the vaccines on other diseases. Weakening economic momentum, rising inflationary pressures and looming monetary tightening also burdens the fundamental outlook.

Still, credit spreads have contracted year to date, driven by strong technical support, in terms of gigantic fiscal recovery packages across the board, very low interest rates and central banks directly buying financial assets in the market, including corporate bonds. Thus, from a fundamental perspective, capital preservation is a higher priority than capturing full benefit from a potential bull market.

The EU stimulus packages and slump in the economies pushed the Southern European countries into even higher debt levels, combined with a tourist industry melt down, low growth, high unemployment and an overvalued currency. This added to a lack of structural reforms as well as the negative impact of Brexit completion and mounting demographic challenges.

The U.S. is also facing challenges. However, the U.S. starting point in terms of economic activity, interest rate levels and demographics is comparatively robust. In addition, the dollar serves as the world's reserve currency. In the longer term, the U.S. economy may also benefit from a repatriation of American manufacturing jobs. Thus, we continue to view U.S. fundamentals as more appealing than that of the Eurozone.

### Ahead of benchmark

**The Portfolio.** November's return was 0.19% close to par with the benchmark (0.15%). The year to date fund return was a negative 0.51%, which was 0.86 percentage points better than benchmark (-1.37%). The year to date outperformance was mainly attributable to the portfolio's defensive qualities. Volatility in monthly return has been lower than the benchmark over the past year, three years, five years and seven years.

November's gross trading of approximately 10% exceeded the normal monthly trading range of 3-5%. This was due to inflow of new funds corresponding to approximately 7% of AUM. The North American exposure increased to 49% from 47%, whereas the European exposure remained stable at 35%. Asian/Pacific holdings decreased to 7% from 8%.

The fund remains underweight of the Eurozone for the above-mentioned reasons. In addition, ECB's massive purchase program is essentially crowding out traditional corporate credit risk from the Eurozone credit space replacing it with concentrated political risk. Over the past three quarters, the fund has gradually moved towards having a capital preservation tilt.

See performance and fund data

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### Strategy

Global Investment Grade invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in Investment Grade bonds.

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