

Corporate Value Bonds

FIXED INCOME

Momentum continues

- Another good month for High Yield
- Central Banks continue to deliver
- Commodities continued the upward path

April repeated March

Market drivers Credit market strength from March continued into April and resulted in spreads tightening across the majority of credit spectrum. Even in the UK the credit markets rallied. We say even, because the “Brexit” is potentially the biggest risk catalyst for volatility, primarily due to the unknown impact of such action.

Commodities have continued to rise. Oil in particular has continued to grab attention with continued positivity amongst investors. The Fed’s continued dovish tone has supported commodities and emerging markets, however this will be tested in the upcoming Fed meeting in June. Unemployment figures will support the market view that we are about to see another rate increase.

Except for the “Brexit”, where the market pricing strongly implies a stay vote, Europe’s economy appears to be in a good shape. It is also interesting how much the overall market sentiment has shifted from fear to a “grab for yield”

environment. On the EM front additional stimulus in China is also supporting the economy there.

The quarterly earnings season has kicked off and will be the main focus and driver of our markets in May.

Performance improvement

Performance The fund was up over 2.5% for the month despite lagging the benchmark. The Energy sector was the main positive contributor on an absolute basis but also the main negative contributor on a relative basis given our exposure to more illiquid non-rated oil services companies compared to the more illiquid oil production companies in the benchmark. Consumer Discretionary was the most positive contributor to relative performance in April across several positions in the sector.

Increased BB’s versus Non-rated

Portfolio Changes In April we continued to add in the double-B space in the US across several sectors such as Healthcare, Information Technology, Materials and Consumer. At the same time we utilized the market strength to decrease some of our non-rated Energy and Materials positions as well as our AT1 Financials positions.

Strategy

The strategy aims to capture consistent income and minimize defaults and principal loss. Through careful credit research, the team strives to identify companies that will have adequate cash flows to meet their principal and interest obligations. The team also considers the macro-economic environment and performs an ongoing assessment of relative value and risk.