

High Yield Value Bonds Short Duration 2017

FIXED INCOME

Positive performance driven by Consumer holdings

Continued strength

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.

Positive fund performance

Performance The positive performance of the fund continued in April, driven by our Consumer holdings in the fund. The weakest space in the portfolio was a subsector of Energy – the fund’s exposure to Offshore Supply Vessels. The space continues to be plagued by restructuring and more importantly oversupply of vessels without contracts. The worst performing position was one case where the restructuring talks broke down, and the banks sold the company from underneath the bonds that were held by the fund. We are currently working with lawyers on the case, but the position is priced at 1 cents. The best performing position in the portfolio was also an Energy company which has been re-pricing upwards in anticipation of a positive restructuring of the bond.

Low risk positions added

Portfolio Changes The portfolio has seen a number of positions leave the portfolio. We had two bonds mature and and additional three get called ahead of final maturity in 2017. In addition we tender two distressed bonds. The effected of one of tenders was already priced in last month, the other resulted in a +30% market to market increase in value of the position. In addition we reduced one of our mining positions in the portfolio in anticipation of a future restructuring. As a result of the significant cash build up from the various sales in the fund we have re-deployed it into a number of low risk positions.

Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds – mainly within High Yield. The selection process is based on in-house bottom-up research with main focus on companies with strong cash flow and asset backing. The Buy-And-Hold approach also makes it possible to exploit market premiums from less liquid issues.