

Investment Grade Value Bonds EUR R

FIXED INCOME

Solid absolute return

Comparatively calm credit markets

Market drivers April credit spread developments were pretty calm compared to the first quarter where spreads widened sharply during the first six weeks of the year followed by a strong tightening the following seven weeks.

Construction & Materials and Insurance were among the best performing sectors in April. Across rating brackets, BBBs outperformed the higher rating categories.

The credit market remains supported by the ECB's corporate sector purchase program which will start towards the end of 2016 Q2.

American and German 5Y and 10Y yields rose slightly (between 4-12bp) which had only limited negative impact on overall return. Thus the benchmark's April return of 0.83% was predominately spread driven.

Duration mismatch reduced

Performance April's gross performance of about 0.6% fell somewhat short of benchmark (0.8%). This was partly due to a slight underweight of Europe which continued to benefit from the ECB's purchase program announcement in March.

Year-to-date the gross performance of about 2.9% is running about 0.8% points behind the benchmark. This can be attributed to the somewhat lower level of duration in the

portfolio (about 5) versus the benchmark (about 6) during Q1 2016 where interest rates fell significantly. During April the duration mismatch between the fund (5.6) and the benchmark (6.3) decreased by 0.3, and by the end of May we aim to further reduce the gap.

Barclays Bank added

Portfolio Changes During April, the exposure to North America edged up by 1 percentage point to 56% (versus benchmark 54%) by adding the American rating agency Moody's Corporation and the Canadian life insurer Lincoln National.

British Barclays Bank was opportunistically added when Brexit fears spiked in the beginning of the month, utilizing that the fund has risk capacity ready to deploy when sectors, issuers or individual bonds fell heavily out of favor without solid fundamental reasons.

The Western European exposure of 26% is somewhat below the benchmark weight of 32%. In terms of risk contribution the fund is less underweight Western Europe.

Within the Asian space the ultimately government owned Chinese energy company, Sinopec, was added to the portfolio.

The cash balance was 4.7% by end-April, which is inside the 3-5% target range.

Strategy

This strategy aims to capture consistent income and minimize principal loss within the Investment Grade universe. 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.