Sparinvest

Value Bonds 2018 – 50/50

FIXED INCOME

Strong credit market continues

Markets driven by good sentiment

Markets drivers The credit market strength from March continued into April and resulted in spreads tightening across the majority of the 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 event.

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 good shape. It is also interesting how much the overall market sentiment has shifted from fear to a "grab for yield" environment. On the emerging markets 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.

Strong performance across sectors

Performance The fund delivered a satisfactory positive return in April. The energy sector was the best performing sector in the portfolio as the oil price continued to rebound. Consumer Discretionary was the second best performing sector, whereas Utilities and Information Technology were the two worst performing sectors. All sectors contributed positively to the return of the fund in April.

The best performing position in the portfolio in April was a US pharmaceutical company that develops and distributes drugs. The company was accused of fraud last year, which was very negative for the bonds. A five-month internal accounting review was completed in April and resulted in no further restatements of the financial results of the company. Furthermore the company assured the investors that the liquidity and cash flow generation of the company is enough to meet the obligations this year. Two other strong performing positions were a Kurdish oil producer and a global energy company that conduct seismic surveys.

The worst performing position in the portfolio was a European bank that delivered a slightly negative return. Another weak performing position was a Norwegian offshore supply vessel company that offers it services to energy companies. Most of the vessels of the company are without a contract.

Five new names in the portfolio

Portfolio changes During April, five new positions were added to the portfolio and several positions were rebalanced. One position was called and two positions were sold completely during April.

Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by in-vesting in short-dated corporate bonds – with a mix of 50% High Yield and 50% In-vestment Grade. The selection process is based on in-house bottom-up research with focus on companies with strong cash flow. Our approach also makes it possible to exploit market premiums from less liquid issues and out of favour companies.