

Corporate Value Bonds

FIXED INCOME

Credit back in the positive lane

French election drives the market

Markets The High Yield market had a positive month in April on the back of some weakness in March. The benchmark gave a return of 1% for the month and thus 3.5% for the year.

The first round of the French presidential election was held 23rd of April. Emmanuel Macron and Marine Le Pen won and are now headed for the second and last round to be held on the 7th of May. At the release of the result, the bookmaker odds for a Marine Le Pen final victory declined to around 11%. The market thereby postponed one of the biggest risks against EU stability to the next French election, while the tough Brexit negotiations are ongoing at the EU.

In the month of April, macroeconomic figures generally decelerated a bit, although from a very high level. The curve for government bonds flattened in the month, which can be seen as an indication that the market is expecting a lower probability for a successful implementation of president Trump's fiscal policies.

Despite lower rates, a rate increase is very much on the markets agenda in April. Looking back on the last 30 years of US data, which has the longest history for High Yield, there has been 13 periods where 10-year treasuries have increased by more than 1%. High yield outperformed 10-year treasuries in all periods and gave investors positive returns in all but two of these 13 periods. This is partly due to the lower duration but also due to spread compression as companies benefit from positive economic environment that is associated with rising rates. We therefore continue to view High Yield as a relatively good asset class to be exposed to.

Positive month with few changes

The Portfolio The fund generated a positive return of 1.1% in April (net of fees incl. swing) and 0.1% better than the benchmark.

All sectors contributed positively to the funds return. Energy and Healthcare stood out by contributing 0.2% to returns. Within Energy the contributions were fairly evenly split, while it was in particular one position within Healthcare that stood out as the company was acquired by an Investment Grade company causing significant spread tightening and thus good bond performance. The lowest contribution came from Industrials where positions in Turkey and Italy respectively contributed negatively with less than 0.1% to the funds return and reducing the sector return.

The activity was slightly lower this month. We participated in two new bond issues - one from a British healthcare company and another from a Canadian Consumer Staples company. Both are stable companies with a good cash flow to serve their debt obligations why we are looking to add further to both positions. One company called their bonds at a premium during the month while we exited a bond in a Dutch IT company, which has contributed positively over the year.

The activity lead to marginal changes in the fund's profile, which continues to overweight North America and underweight the Eurozone, and with a duration of 3.8 (0.1 above benchmark). On a sector level the overweights are still in Healthcare, IT, Consumer Cyclical and Energy, while the largest underweight is in Financials, which at the same time is also one of the sectors with the lowest spread.

See performance and fund data [Click here >](#)

Strategy

Corporate Value Bonds 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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