

Investment Grade Value Bonds

FIXED INCOME

No French upset (Part One)

Tighter spreads and lower rates

Markets Credit markets were positive through April with tightening credit spreads across the board. Furthermore, absolute performance benefitted from lower American interest rates, so April's benchmark return amounted to a healthy 0.75% boosting year to date benchmark return to 1.65%.

In the first round (April 23) of the French presidential election, National Front's Marine Le Pen finished only second behind the independent candidate, Emmanuel Macron. This sparked a tightening of spreads, as the market significantly marked down the likelihood of Marine Le Pen winning the presidency on May 7.

Even assuming that Macron wins, we expect volatility to return, as the fundamental challenges of the Eurozone remain unsolved: hard Brexit negotiations, economic imbalances between Eurozone member states, ongoing problems within the Italian banking system combined with demographic changes and decreasing popular support for the EU project across the board. Thus, we take a cautious stance on Eurozone credits in general and domestically oriented Eurozone credits in particular.

The outlook for North American and Asian credits appear more attractive from both a pricing perspective, an economic growth perspective and a political risk perspective. Thus, the overall outlook for the asset class remains positive, in our view.

0.16% behind benchmark

The Portfolio April's gross performance of 0.59% was 0.16% behind benchmark (0.75%). Year to date gross performance

amounts to 1.55%, which is 0.10% below benchmark (1.65%).

The fund remains well positioned to weather and exploit sell-offs related to potential economic and political uncertainty as mentioned in the Markets paragraph. In this scenario, we expect the fund to outperform significantly due to its capital preservation attributes. In case of a Eurozone rally, we expect the portfolio to underperform only moderately, as absolute effective yields in this part of the IG universe is already averaging less than 1% with a duration above six. This effectively limits the scope of how much further yields can drop, in our view. In addition, the ECB is likely to reduce its monthly purchases of Eurozone credits in this scenario, which also limits the opportunity costs of the fund's Eurozone underweight.

In April, we added the Swedish security provider, Securitas, to the portfolio. In addition, we increased existing positions in the global food company, Kraft Heinz Foods, and the US telecom operator, AT&T. The three additions contributed 2bp to fund performance combined. This was balanced by a moderate addition in the US Medical Equipment & Devices Manufacturer, Becton Dickinson, as the company placed a bid for one of its competitors, C.R. Bard, shortly after the purchase. This resulted in a spread widening, burdening portfolio performance by 1.5bp. The proposed merger makes a strong business case, so from a fundamental perspective, we are considering adding further to the position at current levels.

The North American exposure increased to 55% from 52%. The Asia/Pacific weight came down to 11% from 12%, and the exposure to Western Europe was 27%, up from 26%.

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

Strategy

Investment Grade 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 Investment Grade bonds.

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