

SICAV-SIF High Yield Value Bonds Short Duration 2017

FIXED INCOME

Special situations in favor

Positive returns despite macro weakness

Markets In the month of April, macroeconomic figures were generally decelerating a tad. This, admittedly, happened from very lofty levels. The curve steepness for government bonds flattened, which should be seen as an indication that the market is expecting a lower probability for a successful implementation of president Trump's fiscal policies.

It is widely expected that the US central bank will keep interest rates unchanged at their May meeting. The interesting discussion that started at their meeting in March, is how and when the central bank intends to wind down their large holdings of mortgage and treasury bonds – leftover from the quantitative easing. We do not expect the Central Bank to change their mind about two future rate hikes this year, since there has been a tendency for the US economy to pick up steam in the spring and summer.

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 Euro-zone credits in general and domestically oriented Euro-zone credits in particular.

Fund performance

The Portfolio The Fund delivered a positive return of 1.74% (net of fees) in April, significantly better than the broad markets that delivered return of 0.99% (High Yield) and 0.74% (Investment Grade). Year to date the fund is up almost 4%.

All sectors contributed with a positive return, but as for previous months, Energy was among the top performers. We still experience positive sentiment regarding the Norwegian Energy names and spreads continue to tighten. Oil prices were down again in April driven by increased US production and steady inventory. Oil ended just shy of 50 USD, down 5% since beginning of month.

Highest single contribution came from our investment in a Ukrainian Agriculture company, which went through a major restructure back in 2016. We forced the company into debt to equity swap and the shares have surged significantly on the back of improved financial and operational performance. The position contributed with almost 40 bps in April.

By end May the fund will be redeemed in full and we are currently working on timing the sale of the few remaining bonds that matures after this date. We expect the continued strong market momentum to allow us to sell at mid prices or better.

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

Strategy

High Yield Value Bonds Short Duration 2017 invests in short-dated 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. The maturity date of the Fund is May 31, 2017.

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