

Value Bonds 2018 - 50/50

FIXED INCOME

Decent performance in April

Global economy remains strong

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 on the 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, this month rate increase are very much on the markets agenda. Looking back on the last 30 years of US data, which has the longest history for High Yield, there have 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.

Energy was main return driver

The Portfolio The fund delivered a return of 0.19 % (net of fees) in April while the broader markets, High Yield and Investment Grade, delivered a return of respectively 1.2% and 0.9%. Year to date the fund is up by 1.3%.

All sectors, contributed with a positive return, evenly spread across the board. The stand out performing sector, once again, was the energy sector. The sector contributed to 50% of the total portfolio return - this despite the fact that oil prices were down 3% on the month.

Half the positive contribution from the energy sector came from two companies drilling in Kurdistan where the local government showed a strong commitment to pay the companies, something markets previously priced at some uncertainty. Additionally, one of the companies announced a repurchase of some of its outstanding bonds.

During April, three bonds were called and one bond matured. In addition, we decided to realize the gain of one of the previous months top performers, where several good news brought the price back to par, where we decided to realize the gain as it is not unlikely the company will not be able to fully redeem the bonds at maturity. The proceeds was used to top up existing positions.

See performance and fund data

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Strategy

Value Bonds 2018 50/50 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

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