

Value Bonds 2019 - 50/50

FIXED INCOME

Energy continues to perform

Strong markets despite weakening macro

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's 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 continues to perform

The Portfolio The fund delivered a negative return of 0.2 %, net of fees, in April while the broad markets, high yield and investment grade, delivered a return of respectively 1.2% and 0.9%. Year to date the fund is up by 0.5% net of fees.

All sectors contributed with a positive return, more or less evenly spread across the board. The stand out sector was, once again, energy-related companies that had a particularly good month and contributed with 0.25% to the total return - this despite the fact that oil prices were down 3% on the month.

Half of 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 their outstanding bonds.

During the month, we have sold one position following the meat scandal. Additionally, two positions were called. The proceeds were used to fund some minor outflows and the cash position of the fund is currently less than 1%.

See performance and fund data

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Strategy

Value Bonds 2019 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. At least 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2019.

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