

Emerging Markets Corporate Value Bonds

FIXED INCOME

Steady performance in August

Rate hikes back on the table

Markets If the US central bank wants to hike rates before year end, the bank has two meetings left to do so, by the September and the December meeting. In August, the FED chairman Janet Yellen indicated in a speech that the cards were stacked in favour of a rate hike soon. Whatever that means is left for the market to interpret. 10 year US interest rates rose from 1,45% to 1,58% in August and markets are getting a bit nervous that she might be serious.

Oil was up in August. From a level of 41 USD per barrel, oil prices rose to reach a peak of 48 USD on hopes that OPEC will be successful in implementing a production cap or some sort of agreement that will stabilize the oil price. The hope rests on meetings expected to take place by the end of September. Oil prices dropped towards the end of August to around 45 USD, when inventory data showed that US stockpiles of crude oil increased to a record high.

In Brazil, it was finally decided to move forward with the impeachment trial against the now former president Dilma Rousseff. The new president is in favour of reforms and taking painful, but necessary decisions, but also needs to show that he can deliver on his promises. The finance minister of South Africa, Gordhan, was requested to report to a special police unit, which spooked investors, creating a 5% selloff in the rand and a widening of South African credits. On top of that, the largest money market fund in South Africa refused to renew funding to several state owned companies, which made the situation even worse. South Africa is already vulnerable to a downgrade to junk by the rating agencies, and this might be the excuse the rating agencies have been waiting for.

Good performance in August

The Portfolio did well in August, but underperformed the benchmark slightly. In August, it was the longer maturity bonds that outperformed the shorter maturity bonds, and as the fund is lower on duration than the benchmark, the fund did not quite catch up with the benchmark.

With oil up in August, one of the best performing sectors was the Oil and Gas sector, and the fund was unable to keep up with the benchmark in this sector.

The good performance was distributed almost evenly across geography, with Eastern European credits performing marginally better than the rest. The fund is overweight on Eastern European credits, and made up for some of the underperformance elsewhere.

Best performing credit was a Brazilian low cost airline company and a cable company that surprised the market with better second quarter earnings figures than the market expected. Worst performer was a Chilean power generation company.

We reduced exposure to South Africa, by selling some of the fund's holding of a utilities company and reduced exposure to Turkish banks. The fund added in an oil company in Chile.

See performance and fund data

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Strategy

Emerging Markets Corporate Value Bonds primarily invests in corporate bonds issued by companies domiciled in Emerging Markets or with a substantial part of their activities in Emerging Markets. Bonds are selected using the value method, 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 investment universe includes investment grade bonds, high yield bonds and non-rated corporate bonds. The fund can be invested in bonds issued in both local currency and hard currency.

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