

## Investment Grade Value Bonds

FIXED INCOME

# Focus on capital preservation

## Stable markets benefited credit return

**Markets.** Credit markets were calm throughout August, offering low activity and low volatility compared to the first seven months of the year. Also, interest levels remained fairly stable and the Q2 reporting season did not produce any major disappointments. Supported also by ECB's continuing corporate sector purchase program, this type of environment benefited Investment Grade as an asset class and August was no exception, which added further 0.42% to this year's benchmark return now standing at 7.55%. The Brexit vote on June 23 stayed in the headlines only for a few weeks and the price impact on credit markets vanished just as quickly.

## Small outperformance in August

**The Portfolio.** August's performance of about 0.5% was slightly above benchmark of 0.4%. Performance attribution was broad based with no particular segments standing out. Worth mentioning though, is the contribution of further 1.3% in August from the 1.5% position in Barclays Bank, which was picked up during the brief post-Brexit dip. This position alone accounts for about 10bp of the fund's overall performance over the past 9-10 weeks. In August, interest rates movements had no material impact on either absolute or relative performance.

Year-to-date the performance of about 7% is running about 1% points behind the benchmark of 7.8%. This can be (more than) attributed to the lower level of duration in the portfolio

(about 5) versus the benchmark (about 6) during Q1 2016 where interest rates fell significantly. During H1 2016, the duration mismatch resulted in an opportunity cost of approximately 1.0%. We aim to keep future duration mismatch low, so it materially will not influence relative performance.

## Minor changes to the portfolio

**Portfolio Changes.** During August, the Western European exposure edged up to 30% from 29% by adding the German electrical equipment manufacturer, Siemens. Western Europe remain slightly underweight relative to the benchmark (31%). The Asia/Pacific exposure went down slightly to 12% from 13% (benchmark 10%) without any trading.

Among US names, we added the medical equipment and devices manufacturer, Baxter International. Overall, the North American exposure remained at 51% versus benchmark's 55%.

Due to record-low interest rates and very low credit spreads many EUR denominated Investment Grade corporate bonds with tenors up to 4-5 years remain priced at negative absolute yields. We meet this challenge by reducing the portfolio's exposure within this segment, and to shift focus somewhat towards capital preservation from investment return. Thus we aim to (almost) keep up with benchmark if the asset class further rallies and to outperform the benchmark if and when a major setback occurs.

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

### Strategy

Investment Grade Value Bonds invests in global corporate bonds. 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 underlying bonds are diversified across sectors and regions. At least 2/3 are selected within the Investment Grade segment.

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