

## Emerging Markets Corporate Value Bonds

FIXED INCOME

# Another strong month

## Supportive economic data

**Markets** August was yet another positive month with Emerging Market credits returning 0.80 percent, driven by lower interest rates from supportive macroeconomic data and geopolitics.

The labor market in the US continued to improve, bringing down the unemployment rate to 4.4 percent in August. Economic growth in the US was revised up in August to 3.0 percent, but the big puzzle is the lack of inflation. A slowdown in price pressures have moved annual inflation lower and farther away from the FED's 2.0 percent target. The picture is very similar in the Eurozone.

The escalation in rhetoric surrounding North Korea resulted in a temporary risk off tone in the beginning of August that hit both the stock market and Emerging Market credit bonds. A measure of stock volatility – the VIX – increased 40 percent as a result. Emerging Market credit spreads also increased but managed to retrace over the last part of August.

Second quarter earnings season started in August and was in line with expectations, generally confirming solid earnings results. One story in August that stands out is the Russian lender Otkritie Bank that needed help from the Russian state. It looks like the crisis is contained for now, but Russian credits underperformed in August as a result.

## Good performance

**The Portfolio** The portfolio did well in August with a return of 0.74 pct. before fees, but slightly behind the benchmark.

Korean credit bonds underperformed the broader benchmark in August as a result of the geopolitical situation. In fact, Korea was one of the worst performing countries, but still managed to yield a positive return. The portfolio is underweight Korean credit and this benefitted the relative performance.

Credits from Argentina performed very well as elections in August favored the reform friendly government, confirming the positive momentum in the country. The portfolio has an overweight in credits from Argentina. Another country that made a difference versus the benchmark was Ukraine that got a sovereign upgrade from Moody's, because of better growth prospects and a reform friendly government, but performance in the portfolio was hurt because of an underweight in Ukraine.

Lower rates in August was the main driver behind the performance, which caused bonds with longer maturity to outperform shorter dated bonds. As the portfolio is underweight longer dated bonds, the portfolio underperformed slightly.

Best performers was an oil company in Iraq and an energy company in Argentina. Worst performer was an Israeli pharmaceutical company.

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

Return is calculated excluding swing and gross of fees.

## Strategy

Emerging Markets Corporate Value Bonds primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extent non-rated corporate bonds.

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