

## Ethical High Yield Value Bonds

FIXED INCOME

# Volatility rising

## Slightly wider spreads

**Markets** The High Yield market was slightly up during the month of August with almost all sectors apart from Telecommunications contributing positively and all regions except for North America contributing positively. The benchmark returned 0.12 percent bringing the year-to-date return to 5.11 percent.

The escalation in rhetoric surrounding North Korea as well as the American debt ceiling debate resulted in a temporary risk off tone in the first half of August, which hit both the equity market and high yield bonds. High yield spreads widened by 20-30 basis points and the VIX – a measure of stock volatility – increased 40 percent as a result. Credit spreads tightened into the end of the month but ended the month slightly wider.

The labor market in the US continued to improve bringing the unemployment rate down to 4.40 percent in August and economic growth in the US was revised up to 3.0 percent. The big puzzle is the lack of inflation as price pressures have moved annual inflation lower and further from the FED's 2.0 percent target, which is the similar picture we see in the Eurozone. Second quarter earnings season continued in August and were in line with expectations, generally confirming solid earnings results.

The Eurozone's fundamental challenges remain out of the headlines and at this point, and nothing indicates that the German general election on September 24 will change that.

Return is calculated excluding swing and gross of fees.

Nevertheless, we remain cautious on the European part of the credit universe for valuation reasons.

## Very active in an illiquid market

**The Portfolio** The fund provided a positive return of 0.15 percent for August - a couple of basis points ahead of the benchmark and is thus 0.59 percent ahead of the benchmark year-to-date.

All sectors apart from two contributed positively to the funds return in August. Energy stood out as the best performing sector both absolute and relative to the benchmark. This was mainly driven by one of the fund's largest positions in a Norwegian Oil & Exploration company, which came out with positive news during the end of the month.

Despite contributing positively to the funds return, the worst sector relative to the benchmark was Industrials as the fund could not keep up with the sector, which performed strongly across the board.

During the month, we took advantage of the low liquidity as a large part of the market was on holidays. We entered seven new positions across several sectors, some of which have been difficult to source in the previous month(s). We also exited seven positions across sectors that either had reached their fair value or had not performed as expected. The changes lead to slight changes in sector exposures, but the fund continues to have its largest overweight's in Energy and Healthcare and its largest underweight in Financials. It also continues to have a higher spread than the benchmark and slightly lower in duration by 0.20.

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

## Strategy

Ethical High Yield Value Bonds invests in global 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 2/3 of the portfolio are invested in High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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