Sparinvest

High Yield Value Bonds Short Duration 2017

FIXED INCOME

August flat to negative

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

Low duration impacts performance

The Portfolio The fund delivered a disappointing negative return in August, which can be explained by lack of interest rate duration. Year to date the fund has still delivered an attractive return given the short maturity of the fund.

The vast majority of positions in the fund delivered a positive return in August, but a few companies did not perform. The main negative contributor is a Norwegian shipping services company for the energy sector where the price of their outstanding bond dropped 10 points following the announcement that the company had one of their contracts terminated for one of their vessels.

In August only one bond matured.

Finally, the fund will merge into our new Short Dated High Yield fund on September 29. This fund primarily invests in bonds with a maturity less than five years with a rating of BB-B. This segment has historically proven to be the credit segment with the highest risk adjusted returns and to outperform in raising rates environments. We believe this fund offers an attractive value proposition in the current rates environment and therefore sees it as an attractive investment opportunity.

See performance and fund data Click here ›

Strategy

High Yield Value Bonds Short Duration 2017 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 2/3 of the portfolio are invested in High Yield bonds. The maturity date of the Fund is December 31, 2017.