

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Risk increased in August

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 4.4 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 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.

Decent fund performance in August

The Portfolio The portfolio performed well during the month, especially in light of the very short maturity profile. Year to date the fund is up 2.38 percent (gross of fees and swing).

One energy issuer stood out from the rest following the reporting of numbers. This is a familiar issuer from previous monthly commentaries drilling for oil in Kurdistan. The company continued to build its cash position, causing investors continue to increasingly price in an early call of the bond. On the negative side, we lost a bit on our position in an Israeli pharmaceutical who disappointed the market with their numbers and the lack of progress on hiring a new CEO. As a result, we decided to sell the position from the fund.

During the month, we have had two positions leaving the portfolio because of a call and one position matured. These bonds were replaced with four new names to across consumer non-cyclicals, real estate, materials and financials.

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Strategy

High Yield Value Bonds Short Duration 2018 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, 2018.

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