

Investment Grade Value Bonds

FIXED INCOME

Return boosted by lower rates

Slightly wider credit margins

Markets Credit markets weakened slightly through August on the back of July's sharp tightening of credit spreads. Absolute return, however, were boosted by a clear drop in interest rates prompted by the geopolitical tension related to the Korean peninsula. Therefore, August's benchmark return amounted to an impressive 0.67 percent pushing up year to date benchmark return to 3.50 percent.

Health Care was the worst performing sector, which was partially due to a weak Q2 earnings report from the Pharmaceutical Company, Teva. Best performing sector was Technology whereas the all other sectors moved largely in line with the overall market.

The Eurozone's fundamental challenges remain out of the headlines and at this point, nothing indicates that the German general election on September 24 will change that. Nevertheless, we remain cautious (i.e. underweight) on the European part of the credit universe for valuation reasons.

Fund performance on par with benchmark

The Portfolio August's gross performance of 0.71 percent was largely par with benchmark (0.67 percent). Year-to-date gross

performance amounted to 3.08 percent, which is 0.42 percent below benchmark (3.50 percent).

It is no surprise that the fund's performance year to date somewhat lags the benchmark. The fund was positioned defensively to weather and possibly exploit sell-offs related to the Eurozone's fundamental economic and political challenges. So, in a Eurozone rally, the portfolio is expected to underperform somewhat. The shortfall risk is reduced by the fact that absolute effective yields in this part of the Investment Grade universe is already averaging less than one percent with a duration above six. This limits the scope of how much further absolute yields and spreads can drop, in our view. In addition, the ECB is likely to reduce its monthly purchases of Eurozone credits, if this blue-sky scenario continues.

The North American and Asia/Pacific exposure remained at 55 percent and 12 percent respectively, whereas the Western European holding was down to 23 percent from 24 percent.

Performance was burdened by 10bp on the holding in the Pharmaceutical Company, Teva, following a weak Q2 earnings report and a cut in management's FY 2017 earnings guidance. We regard the current market reaction as overdone; hence, we have not reduced the investment in the company. Among August's additions were the state owned Development Bank of Japan and the chemical company, Syngenta.

Return is calculated excluding swing and gross of fees.

See performance and fund data

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Strategy

Investment Grade 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 Investment Grade bonds.

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