

## Procedo EUR

## BLEND FUNDS

# Lower interest rates, stronger euro

## Has the US topped?

**Markets** During the month of August second quarter GDP figures for the Eurozone were revised up to 2.2 percent, which is the highest since the Euro-crisis in 2011. The manufacturing industry PMI rose to 57.4, which is also the highest in several years.

The leading indicators for the Eurozone are pointing sharply higher, so a recession is definitely not around the corner. Despite a strong outlook, long German interest rates dropped about 20 basis points throughout the month. The drop might be explained by lower import prices and inflation expectations due to the stronger euro, which has rallied 13 percent since year-end.

For the U.S., leading indicators topped out and began to decline slowly – but the CLI (OECD's Composite Leading Indicator) is still high. U.S. growth is thus likely to moderate over the coming six to nine months, but negative growth or an outright recession is still unlikely.

Equity markets have been slightly weak since the summer, but most of the weakness was caused by a stronger euro, which has subtracted from the return of non-European markets. The volatility index (VIX) was rather nervous in August due to the missile launches in North Korea. We expect a rather limited impact on the global economy in the case of an escalation – even if we see outright war. Financial markets

might be impacted, but we expect such an impact to be temporary – in the unlikely event that war actually breaks out.

## Strong performance

**The Portfolio** The fund had a solid excess return in the month of August.

All four geographical exposures in the equity allocation (50 percent) beat their respective benchmarks. Especially the double-sorting (Value X Momentum) worked well, although Value as a factor lagged behind the general market in August.

The allocation to bonds (50 percent) also performed well in August. Again, the overweight to Danish mortgage bonds benefitted from narrower spreads and higher carry than the government bond universe.

Due to the past strong performance in Danish mortgage bonds, we have now reduced the exposure to the most risky parts (callable bonds) that are too highly priced compared to the risk of negative convexity.

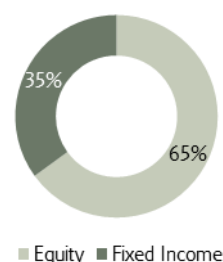
The allocation to both High Yield and Investment Grade corporate bonds performed as expected.

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

Return is calculated excluding swing and gross of fees.

### Strategy

Procedo is targeted at investors with a long investment horizon and/or high risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 65%, but a deviation of +/- 5% is allowed before the portfolio is re-balanced.



For further information we refer to the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV which can be obtained free of charge at the offices of Sparinvest or of appointed distributors together with the initial statutes of the funds and any subsequent changes to such statutes. Investments are only made on the basis of these documents. Past performance is no guarantee for future returns. Investors may not get back the full amount invested. Investments may be subject to foreign exchange risks. The indicated performance is calculated Net Asset Value to Net Asset Value in the fund's base currency, without consideration of subscription fees.

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