

Corporate Value Bonds

FIXED INCOME

Strong but quiet end to the year

Cautious on political risk in 2017

Markets With no major surprises, December was a very strong month for high yield. The benchmark tightened and returned approx. 1.5% and more than made up for the losses in the first two months of the fourth quarter.

As expected, the Fed reacted to strengthening macroeconomic data – e.g. higher inflation expectations – by hiking the interest rate by 25 bps. to 75 bps. Subsequently, the USD continued its strengthening vs. the EUR, also helped by a large drop in the US unemployment rate. US 5- and 10-year interest rates increased by 5-8bp which was more or less canceled out by German 5- and 10-year interest rates decreasing by about 8bp, making the difference the largest since the late 1990's.

Macroeconomic data from the Eurozone was also strong in December – and generally better than expected. Especially figures from the manufacturing industry showed improvements, but also growth in the money supply, Eurozone GDP and employment were stronger.

In 2017, political risk related to the viability of the Eurozone is likely to pick up due to the upcoming Brexit negotiations and elections in the Netherlands (March), France (April & May) and Germany (most likely September). Combined with the ongoing challenges within the Italian banking system, we generally take a cautious stance on Eurozone credits. The outlook for North American and Asian credits appear more attractive from both a pricing perspective, an economic growth perspective and a political risk perspective.

Flat month, staying ahead on quarter

The Portfolio The fund delivered a positive return for the month with gross returns flat to a few basis points ahead of the benchmark. This brings the fund decently ahead of the benchmark for the last quarter of the year.

All sectors contributed positively to absolute returns where Healthcare and Telecommunications contributed most and Utilities and Consumer Discretionary contributed least.

The two positions that contributed most to positive performance were two Energy names – one from Brazil and another from Norway. Combined they contributed approx. 0.2% to absolute and relative performance. One legacy position in a South African Consumer Discretionary company stood out on the negative side contributing with approx. -0.15% to the fund's return as it continues to be challenged by its high leverage. During the month, we added two new positions. The first is a Ukrainian company in the Consumer Staples sector which produces poultry, while the other is a Turkish company in the Consumer Discretionary sector, which primarily produces White Goods. Both are stable businesses penalised by their country of origin despite their international profile.

Two larger positions were called during the month which together with some reductions in bond with low yield to call funded the new additions and the roll of the FX hedges. Cash is now back at normal levels. The changes in the portfolios increased the Eastern European and decreased the US exposure slightly and increased exposure to the two Consumer sectors.

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

Strategy

Corporate 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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