

Value Bonds 2018 - 50/50

FIXED INCOME

A month with solid returns

FED raising rates

The market reacted positively in December, which was not characterized by any large surprises. 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.

Macroeconomic data from the Eurozone were 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.

Interest rates generally increased in December – especially at the beginning of the month. German 10-year rates increased to about 0.4%, but in the latter part of the month, they came down to 0.2% again. In the US, 10-year rates increased to 2.6%, but ended the month at 2.4% despite strong macroeconomic figures.

OPEC countries and a list of non OPEC countries are expected to reduce oil output as part of a deal made in the end of November. As a result, oil prices increased in December from 49 USD a barrel to 54.

Energy performs again

The Portfolio The fund delivered a satisfactory positive return in December. Energy was by far the best performing sector in the portfolio followed by financials and materials. No sector added negatively to the portfolio return.

The best performing positions in the portfolio in October were from the high beta segment of the portfolio. The best performer was an oil service company that provides seismic surveys for major oil companies. The company announced a bond tender exchange, redeeming part of the outstanding bonds and extending maturity on the remaining bonds. In addition, the company announced the issuance of new equity. It is a company that the team follows closely and it is good to see that the company performs by delivering better than expected earnings. Other significant return contributors include a company from the oil E & P sector and a subordinated bank exposure.

The worst performing position in the portfolio in December was a British E & P company under restructuring.

We did not make any changes to the portfolio during December.

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Strategy

Value Bonds 2018 50/50 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

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