

Value Bonds 2019 - 50/50

FIXED INCOME

A month with solid returns

The Fed hikes interest rates

Markets The market reacted positively in December, which was a month that did not see 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.

The stock market recorded another month of strong performance in December with MSCI World (EUR) increasing by 3.16%. MSCI Emerging Market (EUR) gave investors a return of 0.87%. Long inflation expectations gradually increased throughout the month to 1.74% at the end of the month.

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.

Energy performs again

The Portfolio The fund delivered a satisfactory positive return in December, during which all sectors (except Industrials) contributed positively. Energy was by far the best performing sector in the portfolio followed by telecommunications and financials.

The best performing positions in the portfolio in December were from the high beta segment of the portfolio. The best performer was, yet again, the oil service company that provides seismic surveys for major oil companies. As mentioned last month, 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. The bond continued to perform on the back of this news in December. Other significant return contributors include a companies from the oil E & P sector and a subordinated bank exposure.

The worst performing position in the portfolio in December was a Mexican consumer products producer, which delivered a negative total return of 0.6%

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

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Strategy

Value Bonds 2019 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. At least 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2019.

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