

Emerging Markets Corporate Value Bonds

FIXED INCOME

Strong 2017

Year End Lull

Markets December was a slow month for emerging markets with the prior trends from November continuing. Emerging markets sovereign bonds outperformed their corporate peers by close to 40 basis points.

The big global events in the markets were the FOMC interest rate meeting in the middle of the month and the upcoming US tax reform. The Fed decided to increase the guiding rate by 25 basis points. Following the meeting, the Fed chair gave her final comments, before being succeeded, on the U.S. economy where she expressed optimism. The new tax proposal and the Fed rate increase led U.S. rates to increase. Benchmark 10-year government bonds rates rose in December – but mostly in Europe. Rates are going higher because the bond markets expect a faster normalization of the monetary policy.

The big EM theme of the month was South Africa. There, the Former Deputy President Cyril Ramaphosa won the race to become the candidate in the 2019 elections.

Otherwise the situation in the Middle East has stabilized following the detentions in Saudi Arabia and tensions relating to Lebanon. Iran sanctions did come up again as another source of instability in the region.

In Asia, we have continued to see weakness in economic data in China, combined with a state crack down on foreign acquisitions by some of its global conglomerates.

The geopolitical uncertainty related to tensions between North Korea and the U.S. have not had a noteworthy impact on bond markets in December and the price for insurance against a South Korean government default has continued to decline in December.

Positive Finish

The Portfolio The portfolio performed in line with the benchmark in December. The major driver of performance in December was our position in an Indian telecommunication company, as it announced a new restructuring programme where a sister company would be helping by buying its assets at fair levels.

Otherwise we benefited from a telecoms position in Nigeria and lagged on some corporates in Mexico on the back of concerns surrounding the Nafta agreements.

Ratings wise the non-rated bonds performed best in December and the weakest was our BB exposure relative to the benchmark.

During the month, we added two new positions in the portfolio, a chemical issuer in Mexico and a consumer products company in China. Post month end we significantly reduced our exposure to Chinese corporates on the back of the evolving story surrounding HNA, a global Chinese conglomerate, who is having significant issues in refinancing its large amount of debt outstanding globally.

Return is calculated gross of fees and excluding swing.

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

Strategy

Emerging Markets Corporate Value Bonds primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extent non-rated corporate bonds.

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