

Ethical High Yield Value Bonds

FIXED INCOME

A quiet month in High Yield

Low volatility dominates high yield

Markets December was a very uneventful month for high yield. The spread on short dated moved sideways with minor fluctuations in the range plus/minus tre basis points.

The big events in the markets were the FOMC interest rate meeting in the middle of the month and the upcoming U.S. tax reform. The American central bank, Fed (Federal Reserve), 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 her optimism on the U.S. economy. The new tax proposal and the Fed rate increase led U.S. rates to increase. The effect on high yield bond prices were however muted causing high yield bonds to outperform government bonds in the period that followed.

Overall 2017 was a good year for high yield. The asset class delivered a total return in local currency of 7.64 percent. The return was the result of all-time low volatility, a global shortage of opportunity to find yield, improving issuer balance sheets, and rising commodity prices made high yield spreads tighten 71 basis points, which in combination with coupons led to the strong annual return.

In total, the asset class had two months of negative total returns and the short dated segment had one month. This

made 2017 the least volatile year of the last 20 for the asset class. The volatility of the monthly returns was just one fourth of the last 20-year average.

Good relative performance

The Portfolio The fund provided a positive return of 0.16 percent for December, 0.13 percent better than the benchmark. Thus, the fund annual return ended 0.94 percent ahead of the benchmark.

Once again, the energy sector stood out this month, as it was the highest contributor to both absolute and relative performance. This month however, the sector was closely followed by the industrials sector where the return was driven by the security selection, as the relative return was the dominating contribution. Consumer, non-cyclical, did well in December and added the second most to the fund return, but in relative terms, the sector was at par with the benchmark.

No sector had a negative contribution to the fund return.

In terms of single positions, December was a quiet month with only two bonds being called. Some of the proceeds were reinvested into an existing position. We will look to reinvest the remaining funds in the new year within the sectors where we find the most value.

Return is calculated gross of fees and excluding swing.

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

Strategy

Ethical High Yield 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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