

Investment Grade Value Bonds

FIXED INCOME

A good year for corporate credits

Material spread tightening

Markets Credit spreads stayed firm through December, consolidating a material full-year tightening. This was the main driver for a full-year benchmark return of 3.68 percent (0.34 percent in December).

Best performing sectors in December were Health Care, Media and Technology, whereas Telecommunications, Utilities and Automobiles & Parts underperformed the broader market. For the full year Financials, Oil & Gas and Utilities tightened the most, while Chemicals, Food & Beverage and Industrial Goods & Services, although tightening as well, did not keep up with the market.

Tightening spreads and German government interest rates near historic lows, pushed down the average yield on Eurozone based euro denominated senior bonds in the benchmark to 0.6 percent across all maturities representing about 12 percent of the benchmark by year-end. This was predominantly driven by the European Central Bank's ongoing purchasing program. We find this level unattractive, as investors are compensated neither for the risks associated with the Eurozone's intrinsic economic imbalances, nor for the risks stemming from independence movements, Brexit, migration, security threats and polarization of the European political landscape.

The outlook for the rest of the credit market appear more attractive from both a pricing perspective, an economic growth perspective and a political risk perspective.

0.41 percent below benchmark

The Portfolio Full-year 2017 performance of 3.26 percent was 0.41 percentage points below benchmark's return of 3.68 percent. Throughout the year the fund has been positioned defensively to weather and possibly exploit sell-offs related to the Eurozone's challenges mentioned in the market paragraph. This did not pay off, which explain the year's underperformance.

Nevertheless, we remain cautious (i.e. underweight) on the Eurozone part of the credit universe for fundamental valuation reasons. The relative shortfall risk is capped by the very low absolute effective yields in this part of the Investment Grade universe. This limits the scope of how much further absolute yields and spreads can drop, in our view. In addition, the European Central Bank is likely to reduce its monthly purchases of Eurozone credits, should this blue-sky scenario continue.

Thus, we continue to tilt the portfolio somewhat towards capital preservation, which could lead to a moderate underperformance in a prolonged Eurozone rally scenario.

The North American and Asia/Pacific holding remained at 53 percent and 15 percent respectively. Whilst the Western European exposure decreased to 24 percent from 25 percent.

Return is calculated gross of fees and excluding swing.

See performance and fund data

[Click here >](#)

Strategy

Investment Grade 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 Investment Grade bonds.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.