

Value Bonds 2019 - 50/50

FIXED INCOME

A quiet month in High Yield

Low volatility dominates the year

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 three 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 Fed decided to increase the guiding rate by 25 basis points. Following the meeting, the Fed chair gave her final comments, before being succeeded, 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.

A quiet month

The Portfolio provided slightly below return reflecting the short duration of the portfolio. The broader Investment Grade and High Yield markets ended the month respectively 0.52 and 0.23 percent higher.

The top performing sector was Energy once again. No single sector contributed significantly to the total fund return.

In terms of single issuers, the top performer was the previously mentioned oil company drilling for oil in Kurdistan. The bonds have gained due to continued payments from the local government and the following build-up of cash balances.

In December, one position were called and we decided to take profit on an issuer by reducing the position. The proceeds were reinvested into two existing names in the portfolio.

The proceeds will be carefully reinvested when the right opportunities presents themselves, with respect to the fund risk budget and considering the short maturity.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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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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