

Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

A good year for the new strategy

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 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 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 optimism. 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 currencies 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.

Strategy performs in first 7 months

The Portfolio provided a negative return of minus 0.01 percent for December, which was in line with the benchmark. For the year the fund delivered a return of 1.46 percent compared to the benchmark return of 1.04 percent.

The energy sector stood out this month, as it was the best contributor to absolute performance but also contributed positively relative to the benchmark. This was driven by all positions within the sector. In December, no sector stood out in the negative contribution.

In December, four bonds were called. The proceeds were re-invested in three existing names and two new names. As we mentioned previously, we currently find attractive ideas within energy and thus two of the three names we added in was within this sector.

We continue to see a large amount of refinancing in the market and as a result bonds being called. We thus continue to invest the cash proceeds efficiently as opportunities arise.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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Strategy

Value Bonds - Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

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