Sparinvest

Investment Grade Value Bonds

FIXED INCOME

A difficult year for corporate credits

Further spread widening

Markets December's positive benchmark return of 0.87 percent was entirely due to a large drop in government interest rates, especially in the U.S. Credit spreads widened further through December making 2018 a very difficult year for the asset class. Thus, benchmark return for the full year stood at a negative 3.61 percent.

Throughout the year spreads widened significantly across the board. Worst hit were Automobiles & Parts, Financials, Construction & Materials, Industrial Goods & Services and Retail. Less hurt but also markedly wider were Technology, Chemicals, Food & Beverage, Health Care and Personal & Household Goods.

On the positive side, Italian long interest rates dropped, as the government made concessions to the EU in the quarrel over the budget deficit. However, the political and economic challenges of the Eurozone remain unsolved, a hard Brexit is moving closer and the immigration issue is outstanding as well.

Finishing 2018 ahead of benchmark

The Portfolio December's return of 0.34 percent was 0.54 percentage points lower than benchmark (0.87 percent) making this the weakest month in terms of relative performance in 2018. This was due to a combination of headwinds within the portfolio's overweight of American non-financial corporate hybrid bonds, legacy (i.e. regulatory outdated) financial subordinated debt and some long dated blue chip American issuers. We are comforted that it is due to market technicals and not any material weakening of credit fundamentals.

Fund performance for the full year amounted to a negative 2.91 percent, which was 0.70 percentage points better than the benchmark (negative 3.61 percent). The excess return in 2018 was primarily due to the defensive features of the fund being prepared to weather the impact of a general spread widening, especially within the Euro-area.

We remain cautious (i.e. underweight) on the Eurozone part of the credit universe for fundamental valuation reasons and continue to tilt the portfolio somewhat towards capital preservation. However, we have to some extend exploited some buying opportunities towards the end of the year. The fund continues to be underweight in Germany and France and has no exposure to Italy, Spain, Portugal and Greece.

We further increased the holding in a leading Norwegian bank, whereas we reduced the exposure in a state owned Japanese bank. This contributed to lower the Asia/Pacific exposure to 14 percent from 15 percent. The North American and Western European exposure remained at 50 percent and 31 percent respectively.

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.