

## Value Bonds – Global Ethical High Yield

FIXED INCOME

# An eventful market

## Market volatility returned

**Markets** The eventful start of the year continued, however the sign of the market returns changed during February. The benchmark returned minus 1.01 percent, bringing the year-to-date return to minus 0.56 percent.

After an extended period with exceptionally low volatility, markets reacted at the beginning of February, when figures for U.S. wages were considerably higher than expected. Low wage inflation – and low inflation in general – has been one of the main reasons to keep rates low in the U.S. The VIX Index virtually exploded from historic lows to levels normally associated with very high uncertainty. Although uncertainty increased in the riskiest asset classes, the unwinding of speculative positions in the VIX index mainly caused it.

As a result, all major asset classes had negative returns during the month. Despite the negative high yield returns, investors were still better off compared to investment grade, which returned minus 1.1 percent due to its higher duration. All sectors contributed negatively with cyclicals such as Energy and Materials leading the losses while more defensive sectors, such as Utilities and Consumer Staples, lost the least.

Despite the weak month, high yield fundamentals seem to be in good shape. The reported earnings have in general been strong which combined with moderate growth in corporate credit has resulted in an overall reduction in leverage. Combined with the economic growth and the U.S. tax reform, high yield fundamentals should have a continued tailwind.

Return is calculated gross of fees and excluding swing.

## Focus on capital preservation

**The Portfolio** The fund provided a negative return of 0.42 percent before fees for February, 0.69 percent better than the benchmark and thus 0.72 percent ahead of the benchmark year to date.

On top of the overall eventful month, the portfolio had four individual events that played out positively for performance in addition to the overall portfolio positioning.

The four mentioned positions contributed with over 0.25 percent and were across four different sectors. The individual bonds increased in value by between five and 10 percent on the back of several events: more clarity on a restructuring (Consumer Discretionary), a merger (Consumer Staples), refinancing to call existing bond (Energy) and a regulatory product approval (Healthcare).

Consequently, all sectors contributed positively to performance apart from Industrials where some of the high duration positions underperformed.

During the month, we exited several positions across sectors that had reached our target levels and used the proceeds to enter one new position as well as add to existing positions. The changes had marginal impact on the sector and regional positioning but given positive relative performance, the overall risk versus the benchmark came down. We continue to look to take advantage of opportunities as they arise in this rather volatile environment.

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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