

## Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

# An eventful month in high yield

## Market volatility is back

**Markets** The eventful start of the year continued during February. After a long period with exceptionally low volatility, the market reacted nervously 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 almost 50 – a level normally associated with very high uncertainty in the equity markets. 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 provided negative returns during February. Global high yield returned minus one percent sending the year to date return into the negative territory. However, High Yield investors were still better off vs Investment Grade, which returned minus 1.1 percent in February on the back of its higher duration.

All sectors were negative with cyclicals such as Energy (minus 1.7 percent) and Materials (minus 1.2 percent) leading the losses. The more defensive sectors also produced negative returns with consumer staples (minus 0.2 percent) doing best.

Despite the difficult month, high yield fundamentals seem to be in good shape. The reported earnings have in general been strong and the general growth in corporate credit has been moderate resulting in an overall reduction in leverage. Combined with the economic growth and the tax reform

mentioned last month, high yield fundamentals should have a continued tailwind in the intermediate future.

## Strong capital protection features

**The Portfolio** The fund provided a negative return of 0.28 percent for February, which was 0.16 percent better than the benchmark that delivered a negative return of 0.44 percent. Furthermore, in comparison to the broader credit markets, the fund did really well. The fund delivered a limited drawdown in some very difficult bond markets and was achieved through the lower relative duration and our Value investing approach.

Energy and materials delivered the largest and positive contributions to the fund return. This is especially noteworthy; given these were the sectors that delivered the worst overall returns within the High Yield segment. This outperformance was due to our security selection within the sectors. In the energy sector, our exposure to the Norwegian oil producers that provided the excess return. For materials, it was the exposure to agricultural fertilizer manufactures as well as gold and diamond producers.

We entered February with great flexibility towards the portfolio construction that allowed us to take advantage of the weak market and buy bonds at attractive levels. We managed to add eight new names and increase our position in 16 names. Cash, selling eight positions and reducing three, funded these changes. Finally, one position was called.

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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