

Corporate Value Bonds

FIXED INCOME

Another strong high yield month

Global economy is blooming

Markets The high yield market continued the positive trend from January and reached 1.4% in February measured by the global benchmark. Where the US government yield remained unchanged over the month, the European interest rates fell across the board. The primary source of returns came, however, from the tightening of credit spreads in the US and emerging markets, while spreads in Europe remained fairly flat during the month.

The already strong macroeconomic figures were continuing at high levels in the month of February. In many cases they even strengthened further – especially for business and consumer confidence surveys. Several of these surveys have now reached the highest levels in many year and the leading indicators across regions all point to higher growth in the coming months.

Across the G10-countries, economic releases continue to surprise positively and the surprises have in fact not been seen stronger since 2010. Despite the improving macroeconomic figures, long interest rates actually dropped throughout the month.

In February, the financial uncertainty in Southern Europe found its way back to the headlines. Greece is (again) negotiating with the Troika, which so far is not turning out as hoped. Thus Southern European government bond spread are again widening versus Germany. Also worth noticing, that French government bonds this time behave more like the Italian and Spanish than the German peers.

Decent performance in February

The Portfolio The Fund generated a positive return of 1.3% (net of fees) in February and thus slightly behind the benchmark. Year to date the fund is lacking 50 bps compared to the benchmark.

All sectors except consumer goods contributed with a positive return, evenly spread across the board. Though, energy-related companies had a particularly good month and contributed with approx. 0.3% to the total return - this despite the fact that oil prices were flat on the month. It was primarily the Norwegian oil-service companies that accounted for the main part of the return within the sector. The past two years, Norway has suffered tremendously from falling oil prices, but recently the markets has been much more positive, although still primarily based on expectations for the future rather than the current environment.

The worst performer was a Croatian food producer and distributor that are struggling with deteriorating consumer spending and hence to generate the necessary growth and cash flow to service the debt. This uncertainty has resulted in bond pricing fallen steadily during the first two months of 2017. Currently the company is working to sell off several business segments in order to create the necessary liquidity to comfort the investors.

During the month, we exploited the positive sentiment in the Norwegian market to reduce our exposure in a couple of names. We increased the exposure within IT and telecommunications, and otherwise only made some minor adjustments to the portfolio.

See performance and fund data [Click here >](#)

Strategy

Corporate 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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