

High Yield Value Bonds Short Duration 2018

FIXED INCOME

The good start of the year continues

Strong markets despite political noise

Markets 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 years and the leading indicators across regions all point to higher growth in the coming months.

MSCI World (EUR) gave a return of 4.6% in February. Part of the increase was due to a weakening of the euro, which is again being outpaced by the US dollar, but in general, the equity market did well due to an improvement in the income growth outlook.

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

This was especially the case in the Eurozone where financial uncertainty in Southern Europe reappeared. Greece is again negotiating with the Troika, which is so far not turning out as hoped. Government bond spread vs. Germany are therefore widening again.

Energy continues to perform

The Portfolio The fund delivered a strong positive return of 0.72 %, net of fees, in February. Financials was the best performing sector in the portfolio followed by utilities. Consumer

staples were the only sector that contributed negatively to the portfolio return.

The best performing position in the portfolio in February was a Norwegian offshore company within oil service industry. Following a positive analyst report as well as general benign view in the market of the future state of the company. In addition, we saw a strong return contribution from our subordinated utility exposure where investors increasingly are pricing an early call of the bond. Finally, all subordinated financials contributed equally well.

Again, in February, the worst performing was the largest retailer in Croatia. The bond we hold showed great volatility during the month and we end the month with the same position as we started, we managed to realise some profit on part of the position and repurchase a few days later 16% cheaper. The primary reason to the volatility was a news story about the company not being able to pay salaries. Claims we believe are unfounded and we therefore added a bit to the position after we had further reduced our exposure at the mid-month highs. The company is about 15% of the GDP of Croatia and one of the biggest employers and it is our assessment that this is a systemically important company. We continue to monitor the situation and manage our risk towards the company accordingly.

During February, two bonds were called and we have added a new chemical company that produces chemicals for the aluminum production to the portfolio

See performance and fund data

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Strategy

High Yield Value Bonds Short Duration 2018 invests in short-dated 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. The maturity date of the Fund is December 31, 2018.

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