

Investment Grade Value Bonds

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Tension building up

High February return

Markets Credit markets were very positive through February with tightening credit spreads across the board. Absolute return was boosted by dropping long-term interest rates, resulting in a monthly benchmark return of a whopping 1.06%.

In 2017, political risk related to the viability of the Eurozone is likely to pick up due to the upcoming (hard) Brexit negotiations and elections in the Netherlands (March 15) where Geert Wilders' Party for Freedom is leading the polls. In France, National Front's Marine Le Pen stands a fair chance of winning the presidency (April 23 first round and May 7 second round) and in Germany (most likely September) the Alternative for Germany party is gaining support.

Combined with the ongoing challenges within the Italian banking system and the unsolved economic imbalances between Eurozone member states, we take a cautious stance on Eurozone credits in general and domestically oriented Eurozone credits in particular.

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.

The outlook for North American and Asian credits appear more attractive from both a pricing perspective, an economic growth perspective and a political risk perspective. Thus, the

overall outlook for the asset class remains positive, in our view.

Fund outperformance

The Portfolio February's gross performance of 1.40% was 0.34% ahead of benchmark (1.06%). This was partially explained (8bp) by a strengthened USD in February, which burdened performance in January by approximately 10bp. The fund hedges 90% (+/-3%) of the FX exposure against EUR.

The remaining 26bp of February's outperformance was spread across names, sectors and regions. Especially the underweight of French issuers paid off, as this segment underperformed due to the upcoming presidential elections and the mentioned increase in French government yields relative to Germany.

In February, we added two new names to the portfolio, Marriott International and Hyatt Hotels Corp, which both are US based operators and franchisor of hotels worldwide with relatively low financial gearing. In addition, we increased the exposure in the British Property & Casualty Insurance company, Admiral Group.

Through February, the regional weights were stable in North America 54% (up from 53%) and Asia/Pacific resting at 12%, whereas exposure to Western Europe edged up to 29% from 28%. Eurozone credits remain clearly underweight (12% versus benchmark 19%) so the fund is well positioned to weather and exploit sell-offs related to increased economic and political uncertainty mentioned in the Markets paragraph.

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.

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