

Corporate Value Bonds

FIXED INCOME

Strong start for high yield

Positive macro figures

Markets High yield markets were very strong in January with the global benchmark showing a return of 1.2%. Slightly higher interest rates were met with strong tightening in credit spreads in the US and Emerging Markets while European spreads stayed fairly flat.

A further strengthening of macroeconomic figures was broad-based in January. This included higher retail sales growth and industrial production growth in the Eurozone combined with a further drop in the unemployment rate to 9.6% (from 9.8%). GDP growth in the Eurozone came out at 1.8% - slightly higher than expected. On this background, the EUR appreciated about 2.5% vs. the USD. Long-term inflation expectations for the Eurozone are continuing to normalise towards their historical average – due to e.g. higher energy prices.

Inflation expectations also increased in the US. The 5Y5Y inflation swap is now trading at 2.4% and ISM Prices Paid (a survey capturing inflation expectations) came out at 65.5, which is the highest since 2011. The so-called NFIB Small Business Confidence came out at 105.8, which resulted in the largest monthly increase in the survey since 1980.

Coinciding with fears of growing protectionism in the market, the Morgan Stanley Global Trade Indicator came out at the highest level since 2010, which also supported energy prices.

Positive return with some changes

The Portfolio The fund returned slightly less than the benchmark for January (net of fees and swing). All sectors apart from

Industrials contributed positively to the fund's return while all sectors in the benchmark contributed positively to its return.

Energy and Materials were the sectors that contributed most positively to return with approx. 0.6%. Within Energy, it was in particular a large Brazilian oil producer and a Norwegian oil service company that performed well and contributed with approx. 0.15%. Within Materials, we saw two positions contributing, namely an Australian mining company, which we exited at a very attractive price and a US road salt producer, added to the fund late last summer.

As mentioned, Industrials was the worst performer for the month, primarily driven by a Turkish construction company that continues to show volatility, while the Utilities sector only contributed mildly positive with no negative contributors. Combined the two sectors contributed approx. with 0%.

During the month, we participated in a couple of new issues in the US and added a larger position in an American fallen angel focusing on IT distribution, contributing positively to the return. In addition, we added to some existing positions and added two smaller service companies within the Energy sector, which both have contributed positively. We exited one large Healthcare position (US) and a smaller Consumer Staples position (UK) which have performed very well. We reduced positions in a couple of other Healthcare names.

The changes resulted in a net reduction in Healthcare and North America while IT was increased and other sectors and regions changed marginally. Duration decreased slightly to be 0.3 lower than the benchmark.

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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