

## High Yield Value Bonds Short Duration 2017

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# Decent start to the year

## Strong markets despite political noise

**Markets** Headlines in January were dominated by political topics, from the inauguration of Trump to UK's Brexit negotiations and upcoming elections throughout the Eurozone.

That said, markets were more focused on the further strengthening of macroeconomic figures that were published during the month. 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 normalize towards their historical average - due to e.g. higher energy prices - and are now around 1.8%.

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.

Signals of improved growth and higher inflation lead to a significant rise in European interest rates. German 10-year government bond yields increased 23 bps, and the overall portion of EZ government bonds with negative yields fell to 25%

from 50% in September. US 10-year government bond yields were effectively unchanged.

## Good performance in January

**The Portfolio** The fund continued the positive trend from December and delivered performance of 0.34% in January, net of fees. The broad IG and HY markets gave returns of respectively 0.0% and 1.24%.

The positive contribution during the month came from the more risky sectors, materials and energy. Within the energy space, especially the seismic companies are finally beginning to pick up some of the momentum that the remaining part of the oil value chain has benefitted from the past 3-4 months. Seismic has historically been first in line in terms of cutting cost, so the last couple of years have been extremely painful for these companies.

Within materials, our investment in the integrated zircon and titanium mining company continued the strong performance from previous months. There has been no major news, so this is just a case of markets slowly acknowledging the value of strong business model and shareholder.

During the month, we had one position getting called in the portfolio. We added to already existing positions where we saw attractive upside given the short time frame to maturity in 2017.

See performance and fund data

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## Strategy

High Yield Value Bonds Short Duration 2017 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, 2017.

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