

Investment Grade Value Bonds

FIXED INCOME

Calm waters for now

Stable beginning of the New Year

Markets Credit markets were stable through January with stable credit spreads. Slightly higher interest rates largely balanced the contribution from carry resulting in a zero benchmark return.

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.

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.

Underperformance in January

The Portfolio January's gross performance of -0.35% was behind benchmark, which was flat on the month. This was partially explained (approximately 10bp) by a weakened USD in January, which on the other hand boosted performance in November and December by approximately 15bp.

The remaining 25bp of January's underperformance was evenly spread across names, sectors and regions. The biggest single name underperformer was the pharmaceutical company, Teva, which burdened performance by 3bp.

Late January, we added the UK tobacco producer, Imperial Brands, to the portfolio at attractive levels by exploiting a temporarily selling pressure. The bond adds further to the stability of the portfolio.

Through January, the regional weights were stable in North America 53% (up from 52%) and Asia/Pacific resting at 12%, whereas exposure to Western Europe edged up to 28% from 26% due to the addition mentioned.

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](#)
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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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