

## Ethical High Yield Value Bonds

FIXED INCOME

# Strong start to the year

## Risk assets performed

**Markets** January was a good month for high yield. Spreads tightened on the very first day of the year driven by the riskiest part of the universe. The benchmark returned 0.45 percent for the month driven by credit spreads tightening by 35 basis points and partially offset by rising government yields.

Most asset classes had a strong start to the year partly aided by the U.S. tax reform. Global expectations to growth and inflation have also improved in the bonds market where the U.S. 10-year yield rose to the highest level since the beginning of 2014. Even though the move in interest rates was relatively modest, it looks to have broken its downward trend since 1987, which is why the few basis points had a large symbolic value.

The bond market is now anticipating an even faster normalization of monetary policy especially in the U.S., but the long-term interest rates have also increased in Europe in January. Higher interest rates are normally associated with positive returns in equity markets, but the movement in interest rates at the end of January was so symbolic that equity returns in the same days were negative and high yield spreads went slightly wider.

This might show that markets are worried about the impact of a faster than anticipated normalization of monetary policy, if the ECB moves closer to ending Quantitative Easing.

## Good relative performance

**The Portfolio** The fund provided a positive return of 0.60 percent before fees for December, 0.14 percent better than the benchmark.

The energy sector stood out this month, continuing the trend from last year, as it was the best contributor to both absolute and relative performance. A majority of the positions within the sector performed although one position stood out and contributed with half of the sectors relative return. This was the position in a Norwegian company, which supplies data to oil exploration companies. The company has continued to win contracts, which was honored by the market by rising equity and bond prices.

The remaining sectors were within few basis points to the benchmark and only one sector, Real Estate, contributed negligible negative to the funds return.

January was quite an active month. Seven positions were sold as they had reached our target levels and one position was called. The proceeds were reinvested in existing positions as well as nine new positions. During the month, we were quite active in the busy primary market, participating in several new issues in which we found value.

The changes resulted in a slightly higher spread for the fund compared to year start, but did not significantly change the sector or regional positioning.

Return is calculated gross of fees and excluding swing.

See performance and fund data [Click here >](#)

## Strategy

Ethical High Yield 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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