

## High Yield Value Bonds Short Duration 2018

FIXED INCOME

# An eventful month in high yield

## Rates increase and spread tightens

**Markets** January has been an eventful month in the bond markets. Most of the risky 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. The bond markets repriced and 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 increased interest rates and tightening spreads created opposite total return profiles of investment grade and high yield.

We regard President Donald Trump's tax reform as fundamentally credit positive, as lowering the corporate tax rate to 21 percent from 35 percent and improved cash flow levels will benefit more than introduced limitations to the deductibility of debt payments. From a dynamic perspective, the latter also represent an incentive to avoid excessive financial gearing. Thus, the tax reform is clearly credit positive for U.S. based rated corporate bond issuers.

The risk is that companies will use the proceeds from the tax rebate to favor shareholders with continued aggressive buybacks and dividends, which in essence will be negative for credits.

## Strong capital protection

**The Portfolio** The portfolio performed relatively well in the current environment by preserving capital. The mix of investment grade, high yield and short maturity especially provided the cushion in a difficult market. The fund return in January was 0.03 percent. Investment grade and high yield markets ended the month respectively -0.80 and +0.44 percent.

In January, once again the energy sector made the largest contribution to the fund return.

In terms of single issuers, the top performer was a Norwegian seismic oil exploration company. The company announced preliminary strong Q4 results in the beginning of the month. This news were followed by the withdrawal of a competitor. The positive news momentum was completed with the release of the actual Q4 numbers that beat the preliminary numbers.

In January, no positions were called or matured. We invested into one new name and increased the position in another.

We are very careful to balance the risk budget of the portfolio with the short maturity, so are mainly targeting new investments with ratings of BB or better.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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## Strategy

High Yield Value Bonds Short Duration 2018 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, 2018.

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