

Value Bonds 2019 - 50/50

FIXED INCOME

An eventful month in high yield

Rates increased and spread tightened

Markets January was 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. Investment grade and high yield markets ended the month respectively -0.80 and +0.44 percent in euros and -0.65 and +0.65 percent in USD hedge.

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, these 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, we took profit on two names and reduced our position in three names. The proceeds were partially reinvested in two new names.

The remaining proceeds will be carefully reinvested when the right opportunities presents themselves, with respect to the fund risk budget and considering the short maturity.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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Strategy

Value Bonds 2019 50/50 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 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2019.

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