

Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

An eventful month in high yield

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. High yield returned 0.46 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.

Strong capital protection

The Portfolio The fund provided a negative return of 0.01 percent for January, which was slightly below the benchmark that delivered a return of 0.36 percent. The strong benchmark return was driven by a very strong rally in risky assets and it was therefore the 'weaker' companies in the universe and especially the telecommunications sector that delivered the highest returns. On an absolute basis, the fund delivered the intended results of capital protection in an environment of increasing interest rates.

In January, once again the energy sector made the largest contribution to the fund return. The sector was also among the top performing sectors in the universe, but it was the security selection within the sector that delivered the true value add both in absolute and relative terms. The average fund contribution was 0.9 percent compared to the average 0.6 percent of the benchmark. This difference was primarily driven by our Nordic exposure.

It was a very active month on the portfolio management side. During the month, we increased our position in 14 existing names. This was mainly within the energy sector, where several of the names did not follow the general market rally, why we decided to add a bit in those names. In addition, we added eight new names across sectors sourced from both the primary and secondary markets. Finally, the purchases were funded by the sale of seven bonds and three called.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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Strategy

Value Bonds - Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

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