

Corporate Value Bonds

FIXED INCOME

Pre-Brexit levels swiftly restored

Spreads tighten despite events

Markets Just over a month has passed since Brexit and besides some short-term volatility markets adapted quickly to the new situation and many UK assets have resumed same price levels as before the referendum.

Negative headlines in Europe continued throughout July, first with the attempted coup in Turkey, then numerous terrorist attacks in France and Germany, while the lack of large negative surprises in the European Bank stress test provided some short term support for subordinated bank paper. Although the coup in Turkey was suppressed the subsequent events by President Erdogan resulted in declining Turkish assets prices and eventually a downgrade of the country by the rating agencies.

The oil price was affected by the events in Turkey as a majority of Middle Eastern production is transported via pipelines and shipped from Turkish ports. Along with an unexpected rise in US inventory the oil dropped approximately 15% to the lowest level in 3 months.

In the US focus the past month has been on the upcoming election, where polls are showing both outcomes are possible, and the recent FOMC meeting where no guidance was given as to when the next rate hike may happen keeping support to the market.

Despite the many events, spreads in general continued to tighten in July. A strong US economy, chatter about "helicopter" money in Japan and the ECBs aggressive buy-back program were the main drivers of performance.

Positive return but lagging market

Performance The fund delivered a positive performance of approx. 1.5% for July lagging the benchmark with approx.

0.5% primarily due to the Materials and Industrials sectors performing well in the benchmark, despite Materials contributing positively to the portfolio. The two best performing sectors were Consumer Discretionary and Telecommunications, while the worst, albeit still positive, were Utilities and Consumer Staples.

The best performing position was a large Energy company in Brazil which benefitted from further divestment plans and extending its maturity profile through new issues, while the second best position was a large US Telecommunications company which performed well due to strong numbers by a competitor. Together they contributed positively with about 0.3%. The worst performing position was a Turkish Industrial which repriced with the Turkish turmoil while the second worst performing position was a Saudi Arabian Energy company. Both legacy positions contributed negatively with about 0.1% combined.

Several changes

Portfolio Changes Through the month there were several changes across sectors. We reduced slightly in European Bank AT1s as the market improved while one Consumer Finance company called the bond we held. We also exited some positions that through further analysis and investigation did not live up to the ethical standards of the fund. As an example we exited a large Automotive company which through a subsidiary produces military equipment, although being a very small part of the combined group. We added new positions mainly in the US across several sectors such as Healthcare, Information Technology and Consumer Discretionary but also increased our position in a Brazilian Energy company through the primary market.

During the summer period we look to take advantage of opportunities that may arise.

Strategy

The strategy aims to capture consistent income and minimize defaults and principal loss. Through careful credit research, the team strives to identify companies that will have adequate cash flows to meet their principal and interest obligations. The team also considers the macro-economic environment and performs an ongoing assessment of relative value and risk.

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