

Emerging Markets Corporate Value Bonds

FIXED INCOME

Positive performance

US rate hike postponed

Markets As expected, the US central bank left rates unchanged at their July meeting. The central bank noted, however, that the labor market has “strengthened” and said other factors were pointing to growth. By the end of July, US data on growth in the second quarter was released and surprised to the downside. Gross domestic product grew at a seasonally adjusted annual rate of 1.2% in the second quarter, well below the 2.5% growth as expected.

10 year US government bond rates dropped on the news, and the US dollar recorded its biggest intraday decline in almost two months. The dollar dropped since the market now deems a rate hike in 2016 less likely. Less monetary stimulus from the Bank of Japan also drove down the US dollar.

The market took the news well and July provided yet another month of positive total returns. Technicals were also supporting the asset class as we have seen heavy inflow lately.

Oil was moving down in July. US oil prices fell to near \$41 a barrel by the end of July. An expanding gasoline glut worldwide and some early signs of increased production in the US and OPEC have dragged down oil prices.

The main event in Emerging Markets in July was the failed military coup attempt in Turkey. More than 200 people were killed during the clashes and thousands of people from the military and the judiciary got arrested for participating. One of the reasons why this coup attempt failed was resistance from the public, the media and the politicians. Over three days, the yield of Turkey's 10 year USD government bond rose from 3,96% to 4,80%. Turkish bank and corporate bonds underperformed government bonds significantly.

Positive returns

Performance The fund performed well in July, but the benchmark did somewhat better. With bad economic data out of the US and the FED more likely to postpone the promised rate hike, it was longer dated bonds that outperformed shorter dated bonds. As the fund has a lower duration than the benchmark, the fund lagged the benchmark on performance.

Regarding Turkey, the fund was underweight, both when looking at market weights and risk. The fund has been positioned defensively in Turkish credits and, therefore, did well relative to the benchmark.

In July's “risk on” environment, Latin American credits outperformed other regions and in particular corporates from Brazil and Mexico were doing well. The fund is neutral on Brazil and overweight on Mexico.

Best performing bonds in the portfolio was a low fare airline company in Brazil and long dated bonds from a Brazilian oil company. Worst performing bonds were bonds issued by Turkish banks.

No significant changes in July

Portfolio Changes There were no significant changes to the portfolio in July. In the near future the fund will reduce the underweight in duration and buy longer dated bonds.

Strategy

The strategy focuses on companies with strong or improving underlying credit fundamentals and good growth prospects, across the entire rating universe. It also aims to limit concentration risk by diversifying across countries, industries and issuers. The strategy combines top down macro-economic research with bottom-up fundamental credit and country analysis.

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