

SICAV-SIF High Yield Value Bonds Short Duration 2017

FIXED INCOME

Credit markets positive despite challenges in Europe

July was tough on Europe

Markets A month has passed since the citizens of Britain voted against continued membership of the EU. Besides some short-term volatility, markets adapted quickly to the new situation and by mid-July, UK assets had resumed same price levels as before the referendum.

Unfortunately, Europe continued to make negative headlines throughout July, first with the attempted coup in Turkey, then numerous terrorist attacks in France and Germany and finally concerns of the development in the European banking sector.

Although the coup in Turkey was suppressed the subsequent events - among others Prime Minister Erdogan's declaration of a state of emergency - resulted in declining markets and eventually a downgrade of the country by the rating agencies. There is no doubt that the EU accession process for Turkey - and others in the region - is left very challenged.

Oil prices were also affected by the events as the majority of Middle Eastern production is transported via pipelines and shipped from Turkish ports. Along with an unexpected rise in US inventory, oil dropped to the lowest level in 3 months.

In US, the past month has been all about the upcoming election, where polls are currently reporting dead heat between the two candidates, Trump and Clinton.

Despite the European challenges, spreads in general continued to tighten in July. A strong US economy and the ECB's

aggressive buy-back program were the main drivers of performance.

Positive performance

Performance The fund moved in line with the general market and delivered a decent result for the month taking the short maturity into account. Whereas banks showed poor relative performance, the exposure to European insurance companies proved quite strong in July. We believe this is more a signal of the ECB buying high grade names than actual fundamental quality.

As mentioned, UK assets were quite volatile in the wake of Brexit, but actually ended up as the best performing region in the portfolio. Large positions like Heathrow and Barclays recovered massively in July.

The oil-related companies dragged performance in opposite direction, primarily due to the fall in the oil price.

No significant changes in July

Portfolio Changes The current interest rate environment has accelerated the early redemptions of bonds. 3 bonds were called during this month. With less than 2 years to the fund maturity, the universe of bonds with a positive yield has become very limited.

The next fund redemption will be in December 2016, where 25% of AuM will be distributed

Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds. The selection process is based on in-house bottom-up research with main focus on companies with strong cash flow and asset backing. The Buy-And-Hold approach also makes it possible to exploit market premiums from less liquid issues.

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