

## High Yield Value Bonds Short Duration 2017

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# 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 the 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 developments 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 majority of Middle Eastern production is transported via pipelines and shipped from Turkish ports. Along with 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. In spite of falling oil prices, the largest positive contributions came from the fund's investments in oil-related companies, in particular a number of Norwegian companies. This development should be viewed in the light of many of the oil companies finally having settled with their creditors and having adjusted the long-term business model to lower oil prices than assumed in 2014.

The best performing position in the portfolio in July, a US consumer company that provides various vending machines to the retail segment. A private equity fund announced in July a tender offer for the company corresponding to a 11% premium prior to the news. If the deal is accepted, bondholders have a change-of-control clause that allows them to redeem the notes at an attractive price. Besides this, the company published better than expected results for the second quarter, which will support the bond price if the deal does not go through.

## No significant changes in July

**Portfolio Changes** The current interest rate environment has accelerated the early redemptions of bonds, which puts pressure on the reinvestment. With less than 2 years to the fund maturity, the universe of bonds with a positive yield has become very limited. We managed to invest some of the proceeds in quality names, like the French hypermarket Carrefour. We only invest cash if we can get a higher risk-adjusted yield compared to the interest rate on cash deposits.

### 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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