

## Value Bonds 2016

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# Credit markets positive despite negative headlines 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, the oil dropped to the lowest level in 3 months. The attacks in France and Germany had minor impact on the financial markets, but the fact that it emphasizes the immigration challenge could trigger a right wing invasion, could have some longer term implications.

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 ECBs aggressive buy-back program was the main drivers of performance.

## Performance as expected

**Performance** With only 5 months to go, the fund is performing more or less independent of interest rate movements and credit events. Whereas banks were out-of-favor on the concerns of the upcoming stress test report, 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.

We expect performance to remain neutral until December 2016 - which compared to other short-dated investment alternatives still is considered quite attractive.

## No significant changes in July

**Portfolio Changes** Up to 10% of the bonds in the portfolio has matured during the last couple of months. Some of the proceeds have been reinvested, but the hunt for yield among investors has more or less vacuumed the market for short-dated bonds with positive yield. We only invest cash if we can get a higher risk-adjusted yield compared to the interest rate on cash deposits, hence we expect the cash position to increase as we approach final maturity.

### 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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