

## Value Bonds 2019 - 50/50

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# Positive credit markets despite negative headlines in Europe

## July was tough on Europe

**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 the same price levels as before the referendum.

Unfortunately, negative headlines continued to come out in Europe 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 papers.

Although the coup in Turkey was suppressed, the subsequent events - among others Prime Minister Erdogan's declaration of state of emergency - resulted in declining Turkish assets prices 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.

Despite the many attempts to disturb world-order, 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 performance across sectors

**Performance** The fund delivered a satisfactory positive return in July. Energy was the best performing sector in the portfolio followed by consumer discretionary. Utilities and industrials were the two worst performing sectors. All sectors contributed positively to the return of the fund in July.

The best performing position in the portfolio in July was an oil service company which provides seismic surveys for major oil companies. The company delivered a strong Q2 report where all key business segments reported revenues above expectations. The market outlook from the company was also more positive than expected. The positive news more than offset the negative effect from the oil price that fell from 50\$ to 43\$ during July. This company is the strongest in the sector with the most cost efficient seismic vessels and we expect it to be "the last man standing" if the sector fails to rebound. Another strong performing position was a UK bank that rebounded after the negative performance from "Brexit" last month.

The two worst performing positions in July were both Turkish banks. The banks were negatively affected by the coup in Turkey. Both banks performed only slightly negative in July.

## Turkish banks sold

**Portfolio Changes** During July the team sold all bonds in the two Turkish banks and realized a profit in the holding period. No new positions were added to the portfolio but one position was increased. No positions were called or sold completely during July.

### 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 focus on companies with strong cash flow. Our approach also makes it possible to exploit market premiums from less liquid issues and out of favour situations.

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