

Ethical High Yield Value Bonds

FIXED INCOME

Summer tightening

Commodities helped the tightening

Markets July was a strong month for credit markets as spreads tightened across the board, with all sectors and regions contributing positively, in a relatively slow summer month. The benchmark returned 0.9 percent bringing the year-to-date return to five percent.

During the month of July, the positive, macroeconomic surprises continued in the Eurozone and the small but consistent disappointments from the US continued. As a result, the spread in the long rates between the two regions also contracted somewhat and the dollar continued its slide and dropped over three percent against the Euro.

The price of oil increased in July from a low of 44 USD a barrel to 50 USD and adding further to the positive sentiment in the Energy sector and emerging markets. Furthermore, precious and base metals rallied in July. In particular, the price of copper rose to two-year highs with continued demand from China driving further momentum in the Materials sector.

A good start to the reporting season swept away concerns about June's wind-down of two Italian and one Spanish bank as well as the muddy outcome of the UK general election. In addition, the persistent uncertainty related to the ongoing Brexit process as well as the Eurozone's fundamental challenges were pushed out of the market agenda.

We expect those less rosy themes to resurface during the second half of 2017, and the German general election scheduled on September 24 could trigger renewed political uncertainty.

Positive returns, but slightly behind

The Portfolio The fund provided a positive return for July (net of fees and swing) slightly behind the benchmark but still ahead of the benchmark year-to-date by approx. 0.5 percent.

All sectors contributed positively to the funds absolute return in July whereas the relative performance was more mixed. Energy and Healthcare were again the top positive contributors both absolute and relative to the benchmark driven by a number of positions. The largest contributions came from a large oil exploration and production company in Brazil and a smaller pharmaceutical company in the US.

Albeit the positive return contribution from consumer discretionary it was the worst sector relative to the benchmark. As with all other sectors, no single position contributed with more than five basis points in either direction.

During the month, we added four new positions in Asia, North America and Europe and across the sectors Telecommunications, Financials and IT. One bond during the month was called and we exited a position in a US energy company, which had reached our target price.

The month's activity has not changed the composition of the fund materially. The cash position can look high, as the value of the currency hedges are included in this figure. They have increased in value as the dollar has decreased in value. The currency hedges are approximately 3.5 percent, leaving the true cash position close to two percent in line with the 1-3 percent target range.

See performance and fund data [Click here >](#)

Strategy

Ethical High Yield Value Bonds invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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