FUND REPORT

July 2017

Sparinvest

Investment Grade Value Bonds

FIXED INCOME

Strong credit markets

Growing company earnings

Markets Credit markets were strong through July with a sharp tightening of credit spreads across the board. Thus, July's benchmark return amounted to a healthy 0.53 percent pushing up year to date benchmark return to 2.81 percent. Almost flat interest rates did not materially influence July's return.

The positive markets were prompted by a solid start to the Q2 2017 earnings release season. Earnings growth among European and US blue chips amounted to 20 percent and 11 percent respectively. The strong performance in Europe was expected, since the earnings surprise ratio was a modest three percent, while in the US it was five percent. Outperforming sectors in both regions were Oil & Gas and Basic Materials, as well as Technology, while in Europe, Consumer Goods, Consumer Services and Financials had a strong Q2 in terms of earnings. This pattern was reflected in spreads where the sectors mentioned outperformed the general credit market.

The good 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. In addition, the German general election scheduled on September 24 could trigger renewed political uncertainty.

Par with benchmark

The Portfolio July's gross performance of 0.56 percent was largely par with benchmark (0.53 percent). Year-to-date gross performance amounted to 2.36 percent, which is 0.45 percent below benchmark (2.81 percent).

It is no surprise that the fund's performance year to date somewhat lags the benchmark. The fund was positioned defensively to weather and possibly exploit sell-offs related to the Eurozone's fundamental economic and political challenges. So, in a Eurozone rally, the portfolio is expected to underperform somewhat. The shortfall risk is reduced by the fact that absolute effective yields in this part of the Investment Grade universe is already averaging less than one percent with a duration above six. This limits the scope of how much further absolute yields and spreads can drop, in our view. In addition, the ECB is likely to reduce its monthly purchases of Eurozone credits, if this blue-sky scenario continues.

Regional exposures moved slightly through July: North America 55 percent (down from 57 percent) and Western Europe 24 percent (25 percent). Asia/Pacific remained unchanged at 12 percent.

Following strong performance, we decreased existing holdings in the British Property & Casualty Insurance company, Admiral Group, and the German auto manufacturer, VW. Among the additions were the state owned Japan Bank for International Cooperation.

See performance and fund data Click here ›

Strategy

Investment Grade 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 Investment Grade bonds.