

## SICAV-SIF High Yield Value Bonds Short Duration 2017

FIXED INCOME

# Resilience of Credit

## Focus on the UK

**Markets** The month of June was characterized by considerable volatility – both before and after the British referendum on the association to EU, which clearly was the most important event in June. The market was generally positioned for a “remain” and when news broke early in the morning of the 24<sup>th</sup> of June that the United Kingdom had chosen to leave the EU, a shock wave went through the markets.

The Pound immediately fell 8% compared to the Euro, which itself dropped vs. the US Dollar. Equity markets also showed large sell-offs – especially in Europe and especially for financial stocks. Interest rates and rate expectations dropped to new lows. The price of gold increased and the US Dollar and the Yen rallied – all of it in a significant turnaround from moderate risk-willingness to explicit risk-aversion.

On the same day, however, the nervousness receded and most of the risky assets have already regained much of the lost territory.

Global government yields have continued to tighten and the number of bonds on negative yields continues to hit new records. There was no rate hike in June in the US, not unexpectedly, as labour numbers in May were very weak. Market expectation remain for rates to stay lower for longer. Emerging markets spreads have widened marginally during the month but that has been offset by rate compression.

## Brexit induced repricing weighs on performance

**Performance** The fund had negative performance in the month, trimming the gross quarterly performance to just above 1%. The best performing sector in the month was the fund's Basic Materials exposure, where the largest holding is a very efficient gold producer. The weakest was Financials primarily as it is the single largest sector in the fund with just under 20% of the fund. Given the FX swings, it is worth reiterating that the fund's currency exposures are 95% hedged to the EUR and equally the fund had 14% exposure to UK credit. All but one of those credits dropped in price, however we expect these to recover.

## Gradual unwind continues

**Portfolio Changes** As the fund continues in an unwind mood, we sold two legacy bonds which both represented 0bps of the portfolio. We also had one financial bond get called. In addition, we closed out of a short dated bond from a Venezuelan energy company. The situation in Venezuela continues to deteriorate and any change in the political regime is likely to lead to a restructuring of its debts, including that of the state energy company. We took advantage of the current positive momentum to exit this position. We also added a bond maturing in 1 month to the portfolio at an attractive yield given limited risk

## Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds – mainly within High Yield. 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.