

## High Yield Value Bonds Short Duration 2017

FIXED INCOME

# Positive returns in 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.

## Steady returns in June

**Performance** The fund recorded another positive month, bringing the Q2 gross returns above 1%. The best performing sector in the month was the fund’s Basic Materials exposure. The weakest was Energy, primarily driven by downward repricings of a few illiquid positions. The fund has 11% exposure to the UK but these contributed positively in local currency to the fund’s performance in the month. This was due to a tender and positive contract news from two companies on the list. We saw negative contribution among the very safe names, but expect these to recover. In light of the significant FX moves this month, it is worth re-iterating that our maturity funds are 95% currency hedged to the base currency of the fund, therefore experiencing limited direct impacts from FX moves.

## Rebalancing following calls

**Portfolio Changes** During the month, we had two bonds in the portfolio which got called. We also sold out of two legacy line items which had represented 5bps of the portfolio. At the same we added four new bonds and substantially increased three existing positions in the portfolio. As we move closer to maturity of the fund in 2017, more and more bonds will be called early in an environment with such low government yields.

## Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by in-vesting 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.