

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Steady performance in June

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 the 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 24th 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 expectations 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.

Positive returns in June

Performance The fund delivered a positive return in June. The utilities sector was the best performing sector in the portfolio followed by the telecom sector. Financials and consumer discretionary were the two worst performing sectors.

The best performing position in the portfolio in June was a shipping company which owns several ships that transport liquefied natural gas. The company was able to issue a new 5-year bond in June which improves the liquidity in the company to pay back the existing shorter dated bond. The company operates on long contracts with solid counterparties. Another strong performing position was a Russian gold producer.

The worst performing position in the portfolio in June was a UK education company. The price of the bond was negatively affected by the surprising “leave” vote in the UK. There was no other fundamental news from the company in June. Another weak performing position was a south European bank which also suffered significantly due to the “leave” vote.

Four new positions added

Portfolio Changes During June, the team used most of the cash balance to buy for new positions to the portfolio. Furthermore, the weight in four existing positions were increased during June. No positions were called or sold completely during June.

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.