

## Value Bonds 2016

FIXED INCOME

# Government yields hit new lows

## 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 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.

**Performance** The fund had marginally negative performance in June, driven primarily by the pricing on six bonds that trade below 90 cents. These stressed names together represent 3.6% of the portfolio. Given the current pricing levels, we expect positive performance from these situations as we approach year-end. The fund currently holds 11 corporate bonds (16.7% of NAV) that have negative yields, marginally negative, but still negative. As we move closer to fund maturity, we expect this ratio to increase.

## Rebalancing into fund close

**Portfolio Changes** In June we had 9 bonds gets called or mature. We also sold 2 legacy positions which together represented 2bps of the NAV. As we manage liquidity into the year-end close of the fund, we have added 5 new bonds to the fund and increased holdings in a number of existing positions in the portfolio.

## 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 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.