

## Ethical High Yield Value Bonds

FIXED INCOME

## In the end a neutral month

## Volatility driven by oil and rates

**Markets** June was a mixed month for the High Yield market as most sectors took a breather and returned a month of coupon, except for the energy sector, where spread volatility followed the oil price volatility. The oil price dropped by over 10% the first 20 days of the month but ended down 2% by the end of the month. The benchmark returned -0.1% for June bringing year-to-date return to 4.1%.

European financials were back in the headlines as we saw no less than three banks ceasing to exist (Banco Popular in Spain and Veneto Banca & Banca Popolare di Vicenza in Italy). This happened after the ECB deemed the banks were “failing or likely to fail”. With none of the banks deemed to have significant adverse impact on the European financial stability, the matters of winding the banks down were turned to the local national authorities. This leaves local member-state politics as a dominant feature in bank interventions.

Brexit continues to be very topical after the elections early in the month resulting in a minority Conservative government backed by Democratic Unionist Party. With fewer seats in parliament, speculations are now for a “softer” Brexit but it had limited impact on markets.

President of the European Central Bank, Mario Draghi, took the market by surprise at the end of June by delivering a rather hawkish speech scheduling a more hasty normalization of monetary policy than previously anticipated. Especially long, European bonds sold off as a reaction and the Euro rallied vis-à-vis the US Dollar and interest rate duration was noticed in the European BB-rated bonds.

## Energy and Health Care continue

**The Portfolio** The fund provided a slightly negative return of June (net of fees and swing) in line with benchmark and ahead of the benchmark year-to-date.

Energy and Health Care were the best sectors compared to the benchmark. Health Care was the most positive contributor to the fund's return for the month and second best relative to the benchmark. While Energy was the worst contributor to the fund's return, it was the best contributor relative to the benchmark. Despite the overweight in Energy, the relative performance came from positioning in companies with strong balance sheets and less sensitivity to oil price volatility.

Consumer Discretionary contributed positively to the fund's return but was the worst performer relative to the benchmark given our exposure to a UK clothing retailer, which underperformed on the back of worse than expected results.

June was slightly above average in terms of activity. We exited positions in a Turkish bank and an Irish materials company, which have contributed positively to performance and reduced a position in a US telecommunications company that has not performed as expected over the past year. We used this cash to participate in three new issues, but also added to existing bonds – all fairly split across regions.

The position changes did not affect the regional and duration exposure but slightly increased the overweight in Healthcare and Consumer Staples and reduced the underweight in Industrials.

See performance and fund data [Click here >](#)

## Strategy

Ethical High Yield 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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