

High Yield Value Bonds Short Duration 2017

FIXED INCOME

Energy holds value

All about Europe

Markets June was a mixed month for the High Yield market, as most sectors took a breather and returned a month of coupon. However, the energy sector delivered a slightly negative return, as spread volatility followed the oil price volatility. The oil price dropped by more than 10% during the first 20 days of the month but ended down only 2% by the end of the month.

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

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 bonds holds as oil drops

The Portfolio The fund delivered a negative return of -0.2% (net of fees) in June while the broad markets, High Yield and Investment Grade, delivered a return of respectively -0.1% and -0.2 %. Year-to-date the fund is up by 2.1%.

All fixed income sectors except industrials contributed with a positive return around zero, more or less evenly spread across the board. The stand out sector was the industrial, which delivered a return of 17 bps, primarily driven by a single issuer.

The specific issuer that stood out within the sector was a Norwegian transportation company where no specific news from the company drove the price increase. The price increase followed a single large investor request to buy bonds in the market. This request caused the bond to reprice at a higher level, as the bond is illiquid.

In June, four positions were called and two matured. Finally, we have used the proceeds to add in three corporate names. Additionally, we added a position in a short dated German government bond, as it becomes increasingly difficult to buy sensible corporate bonds.

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Strategy

High Yield Value Bonds Short Duration 2017 invests in short-dated 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. The maturity date of the Fund is December 31, 2017.

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