

Value Bonds 2018 - 50/50

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 return of -0.2% (net of fees) in May, while the broader markets, High Yield and Investment Grade, delivered a return of respectively -0.1% and -0.2%. Year- to-date the fund is up by 1.4% net of fees.

In the month of June, no specific sector stood out as the main contributor the fund return. All sectors contributed around +2 bps and -1 bps with the financial sector as the largest positive 2 bps contributor and energy as the largest negative -1bps contributor.

On an issuer level, the return pattern was the same, all but one issuer contributed between -1bps and 3 bps. Two issuers delivered a negative return of -4 bps and -2 bps for the month. First, the previous month's top performer drilling in Kurdistan lost 4 bps on no significant news flow except from the decrease in the oil price. Secondly, a position in a Qatar based bank with an investment grade rating lost 2 bps following the political turmoil in the region.

During June 1 bond was called. The proceeds was used to top up two existing positions.

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Strategy

Value Bonds 2018 50/50 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

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