

Emerging Markets Corporate Value Bonds

FIXED INCOME

Positive economic prospects

Macro development is positive

Markets In the middle of March, the US central bank (the FED) hiked the policy rate by 0.25% to 1.00%, as expected. The reason for the hike was two-fold. *First*, the labor market is getting tighter with unemployment at 4.7% - the lowest level since the economic crisis back in 2007-2008. *Second*, inflation in the US is on the rise. The consumption price inflation was over and above 2.0% in February for the first time since 2012. Core inflation, which excludes volatile food and energy prices, was also on the rise at 1.8% in February. All in all, the FED made an easy decision and hiked by 0.25%.

Leading up to the FED decision, the market was getting a bit ahead of events and 10 year treasury interest rates in the US increased from around 2.30% to 2.60% in anticipation that the FED would not only hike rates, but also signal to the market that they anticipate to hike more aggressively than previously communicated. This did not happen and rates settled down again at the end of March.

In Europe, the big political event everyone is waiting for is the French presidential election where the first round election is scheduled to the end of April. A Le Pen victory will cause volatility regarding the future of the EU.

In March, the price of oil fell as oil inventories were at a historic high and the OPEC oil production cap came into question. Saudi Arabia and Kuwait made supportive statements about extending their production cap and prices recovered a bit towards the end of March, still at a lower level.

Challenges in March

The Portfolio In March, the benchmark delivered a positive total return, but the fund lagged the benchmark and underperformed.

The return on Eastern European companies were positive in the benchmark in March. Russian corporates outperformed other Eastern European corporates and with an overweight on Russian corporate credit names, the fund benefitted. Our exposure to a Croatian retailer was the main negative driver in the fund. We decided to lock in the loss and reduce the position as fraud headlines surfaced. We were anticipating rescue financing or asset disposals in the short-term, instead the banks are in the process of taking control and initiating a restructuring.

The fund has an overweight to Latin American credits. In particular credits from Brazil and Argentina. Credits in Argentina were outperforming in March because of better macroeconomic outlook in the country. In Brazil, several meat producers were under accusation of exporting old meat. Bonds were down, but overall credits in Brazil did well in March and the fund benefitted.

One of the best performers in the fund was a company from Argentina that provides cable television and internet services. Another great performer was an Argentinian oil producer. The worst performer in the fund was the mentioned retailer in Croatia.

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

Strategy

Emerging Markets Corporate Value Bonds primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extent non-rated corporate bonds.

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