

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Still positive momentum in Energy

Global economy remains strong

Markets In March, macroeconomic figures continued their improving streak. In many cases, we saw the highest or strongest numbers for consumer confidence since the financial crisis. Long interest rates increased in the beginning of the month, but they almost fell back to the starting point at the end of the month.

In US, the new administration's ability to deliver its policy agenda were put to the test with recent failure to replace the Obama care act. The outcome of the political negotiations in Washington is likely to remain in the markets' focus over the rest of this year. Despite the political noise, it does seem clear is that both US consumers and businesses are significantly more positive about the future.

Across Europe, business surveys have risen to their highest levels in over five years and consumer confidence has recovered close to pre-crisis levels. Furthermore, European elections have so far rejected anti-euro parties, with the results in both Austria and the Netherlands showing that a potential break-up of the eurozone is not as eminent as predicted. Recent polls on the French presidential election indicate an about 22% likelihood that Marine Le Pen will be the next president. If that would happen, the euro would most likely drop.

While growth has improved across most of the world, UK has seen a deterioration in business confidence since start of the year. In addition, inflation numbers has been picking up sharply and salary growth has been slowing. With the activation of Article 50 we will likely witness even more uncertainty for the UK economy.

Zero return in March beats market

The Portfolio Although the fund delivered a zero return (net of fees) in March, it was still better than the broad markets that delivered negative return of 0.23% (both High Yield and Investment Grade). It is worth mentioning, though, that credit spreads in general tightened during the month, but interest rate increases dragged overall performance in negative territory. Year to date the fund is up by 1%.

All sectors, except consumer staples, contributed with a positive return, evenly spread across the board. Though, energy-related companies had a particularly good month and contributed with more than 0.2% to the total return - this despite the fact that oil prices were down 7% on the month.

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 (to 0.1%) as fraud headlines surfaced. We were anticipating rescue financing or asset disposals in the short term, instead the the banks are in the process of taking control and initiating a restructuring. The total loss accounted for 0,2% of total return.

The portfolio return was also slightly impacted (-0.02%) by the Brazilian beef scandal. Although our position was not among the companies involved, the scandal had a negative spillover effect to the entire industry.

During March, 8 bonds was either called or matured and we made a few active sells. The proceeds was used to top up existing positions, exploiting the declining bond prices.

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

Strategy

High Yield Value Bonds Short Duration 2018 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, 2018.

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