

## Investment Grade Value Bonds

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# No Dutch upset

## Tighter spreads, higher rates

**Markets** Credit markets were fundamentally positive through March with tightening credit spreads across the board. However, this was more than nullified by higher European interest rates dragging absolute benchmark return into negative territory (-0.18%). Year to date benchmark return amounts to 0.90%.

The Dutch election on March 15 did not produce any major upset, as the gain of Geert Wilders' Party for Freedom turned out to be smaller (+3.0% to 13.1%) than expected by the pools. This sparked a tightening of spreads, as the market marked down the risk of the National Front's, Marine Le Pen, winning the French presidency on May 7. Nevertheless, we expect volatility to return as we approach the two French election dates and the German general election most likely in September where the Alternative for Germany party is gaining support.

Combined with the ongoing challenges within the Italian banking system and the unsolved economic imbalances between Eurozone member states, we take a cautious stance on Eurozone credits in general and domestically oriented Eurozone credits in particular.

The outlook for North American and Asian credits appear more attractive from both a pricing perspective, an economic growth perspective and a political risk perspective. Thus, the overall outlook for the asset class remains positive, in our view.

## Performance in line with benchmark

**The Portfolio** March's gross performance of -0.19% was in line with benchmark (-0.18%). Year to date gross performance amounts to 0.95%, which also is in line with benchmark (0.90%). Prior to the Dutch election, the fund outperformed the benchmark somewhat due to an underweight of Eurozone credits (11% versus benchmark 19%). This outperformance was reversed following the smaller-than-expected electoral gain of Mr. Wilders.

The fund remains well positioned to weather and exploit sell-offs related to increased economic and political uncertainty mentioned in the Markets paragraph. In this scenario, we expect the fund to outperform significantly due to its capital preservation features. In case of a Eurozone rally, we expect the portfolio to underperform only slightly, as absolute effective yields in this segment is already very low averaging less than 1% with a duration above 6. This effectively limits the scope of how much further yields can drop, in our view. In addition, the ECB is likely to reduce its monthly purchases of Eurozone credits in this scenario, which also limits the opportunity costs of the fund's Eurozone underweight.

In March, we added three new US names to the portfolio: The global food company, Kraft Heinz Foods, the chemicals company, Avery Dennison, and the US telecom operator, AT&T. Nevertheless, the North American exposure came down to 52% from 54% as we divested our position in Continental Airlines and halved the position in American Airlines. The Asia/Pacific weight remained at 12%, and the exposure to Western Europe was 26%, down from 29%.

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### Strategy

Investment Grade 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 Investment Grade bonds.

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