

## Value Bonds – Global Ethical High Yield

FIXED INCOME

# Credit holds as stocks slide

## Trade war escalating

**Markets** Credit remained under pressure in March. At the beginning of the month, volatility came down and equity and credit markets did somewhat better. However, the initiatives of the Trump administration on trade policies had a negative impact on the financial markets. And although the initiatives have the potential to create a trade war, they are still so limited that they should be considered symbolic. The same could be said about the Chinese response. It is estimated that Chinese exports to the U.S. - worth between 50 and 60 billion dollars - could be hit by a tariff of 25 percent, which would primarily be levied on aerospace, machinery and communications technology.

Against this backdrop, central banks surprisingly took a back seat: the U.S. Fed raised its target rate by 25 basis points to 1.5-1.75 percent and the ECB tweaked its Quantitative Easing (QE) guidance. Economic data remained strong, but it could not change sentiment for the better.

As a result, Global High Yield returned minus 0.67 percent sending the year to date return to minus 1.22 percent. Still better than equity markets, that on average lost almost three percent in March (EUR terms)

All sectors within the high yield segment, were negative with consumer goods (minus one percent) delivering the worst returns. Followed by Energy (minus 0.7 percent) and telecommunications (minus 0.6 percent).

Return is calculated gross of fees and excluding swing.

## Defensive positioning paid off

**The Portfolio** The fund provided a negative return of 0.50 percent for March, which was 0.16 percent better than the benchmark. Year to date the fund is close to flat, which against a negative benchmark return of 1.2 percent is very satisfactory and highlights the defensive nature of the portfolio.

Energy and financials delivered the largest contributions to the fund return. We manage to steer somewhat clear of the negative impact of tariffs on the steel industry and outperformed the Materials sector in March.

The energy sectors positive contribution was mainly due to a Norwegian oil services company doing seismic surveillance. The company announced that it would do a rights issue as well as a convertible bond issue to refinance the debt. The announcement was followed by a call of their outstanding bonds. The company's debt traded in the low seventies at the beginning of the year and will be called at 103.

Worst relative performing sector was industrials, where we missed performance from not being exposed to the more risky names in the sector.

During the month, we made several minor adjustments to the risk of the fund when opportunities arose according to the funds overall strategy. Further, we added 8 new names spread across sectors and regions. Three bonds matured or was called and we took profit in three bonds, closing out of the names.

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

## Strategy

Value Bonds – Global Ethical High Yield 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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