

Value Bonds - Short Dated High Yield EUR R

FIXED INCOME

The strongest quarter in a year

Broad based market strength

Markets The end of March marked one of the strongest quarters in recent years - a far cry from the large drop in late 2018. While spreads continued to tighten, rate moves further helped the benchmark deliver a positive return of 0.59 percent for March, bringing the year-to-date return to 4.47 percent.

The primary driver for the positive returns across asset classes was probably the softer tones from both the U.S. and European central banks, which appear to have put further rate increases on hold in the imminent future. Consequently, we have seen a large drop in market expectations for the short end of the curve. Despite strong equity markets and the VIX index trading down to quite low levels, long rates across the regions also dropped heavily. German 10-year rates are now again negative and trading around -0.05 percent.

The U.S. yield curve inverted for the first time in a decade in March. So far, only the very short interest rates are higher than the 10-year rate – not to be confused with the normal spread between 2-year- and 10-year rates. This is nonetheless a source of concern, since an inverted yield curve is typically seen as a reliable indicator for a recession within the subsequent 1-2 years.

Credit markets, however, were not negatively affected by the inverted yield curve, but actually benefitted from the lower rates – especially duration sensitive rating bands such as Investment Grade.

Strong return but slightly behind

The portfolio The fund delivered a positive return of 0.54 percent in March, which was 0.05 percentage points behind the benchmark. As a result, the fund is 0.33 percentage points behind the benchmark year-to-date.

The continued strong markets resulted in all sectors contributing positively to the funds return in March. Industrials and Energy delivered the highest contribution to the funds return, while Industrials and Healthcare delivered the highest contribution compared to the benchmark. The positive contributions in these sectors were broad based and no single position stood out significantly. Real Estate and Consumer Discretionary had the worst contribution compared to the benchmark primarily due to the underweight in Chinese real estate and automobile companies as high risk bonds performed well.

During the month, one bond matured. Further three bonds were exited and five bonds reduced as they had reached the fair spread. As the market for new issuance really opened up in March, we spent the proceeds to participate in three new issues as well as entering one new position in the secondary market and adding to existing positions.

As a result, the overall spread of the fund increased and is now slightly higher than the benchmark while the duration is still lower.

Return is calculated gross of fees and excluding swing.

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

Strategy

Value Bonds - Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, 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.

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