

Corporate Value Bonds

FIXED INCOME

High Yield market slows down

Waiting for June events

Markets Although positive sentiment continued in May, markets could not keep up the pace from April's rally. While high grade markets were more or less flat on the month, High Yield was slightly better with a positive return of 0,50 pct. The credit market remains supported by the ECB's corporate sector purchase program which could start in the first half of June.

Risky assets remain to be in the focus of investors, fueled by rise in commodity prices and continuing signs of a slowly and controlled improving global economy. Oil prices surged another 10 pct. in May, primarily as a consequence of declining US inventory and global production.

In Europe, Brexit is still making headlines as we move closer to a referendum date, 23rd June. The inconclusive polls are challenging for UK asset pricing and a major source of short-term volatility. Our biggest concerns around the Brexit are actually for the remaining EU members, especially the Eurozone members.

The next fed hike is the other big catalyst ahead for credit markets and not least important for emerging markets. In EM, Latin American is the focus, where we are seeing acceleration of corruption investigations in Brazil following recent pleas and continued deterioration of the situations in Venezuela.

Overall we expect June to be an eventful month.

Small underperformance

Performance May's gross performance of just under 0.5% was just shy of the benchmarks 0.5% return. This was mainly

due to an underperformance of one stressed mining name in the materials sector, which fell significantly during the month, costing the fund approx. 0.3%. The sector contributing most positively was the energy sector contributing 0.2% and the financials sector as several of our AT1's outperformed the market.

The best performing names were two Energy names, one Norwegian Energy Services company and one Norwegian Oil Producing company, which benefitted from the positive sentiment in oil-related names. The worst performing names, besides the one mentioned above, was another mining company in Australia and a Nordic consumer name.

From Europe to US

Portfolio Changes April was a rather active month as we took profit on European positions while adding positions in the Americas, further reducing the Northern and South & Central America underweights. We reduced the European exposure by 3% while increasing the US exposure by 2% and the Latin America by 0.5%.

The European positions that were reduced were primarily non-rated bonds in the energy and materials sectors and at profits, while we chose to significantly reduce one non-rated Nordic consumer name at a loss of 0.1% of the fund, which we have wanted to reduce for some time.

We will continue – as in previous months – to exploit market opportunities to rebalance the portfolio.

Strategy

The strategy aims to capture consistent income and minimize defaults and principal loss. Through careful credit research, the team strives to identify companies that will have adequate cash flows to meet their principal and interest obligations. The team also considers the macro-economic environment and performs an ongoing assessment of relative value and risk.