

SICAV-SIF High Yield Value Bonds Short Duration 2017

FIXED INCOME

Energy continues to perform

The calm before the storm

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 0,5%.

Risky assets remain to be the focus of investors, fueled by a rise in commodity prices and continuing signs of a slowly and controlled improving global economy. Oil prices surged another 10% 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 on 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 situation in Venezuela.

June will no doubt be an eventful one for markets. Given our short duration we feel defensively positioned going into June.

Energy follows oil price

Performance The fund performed well with performance close to 1% gross during the month. In line with previous months, the energy sector is the main positive driver of performance in the portfolio. The best performing name in the portfolio was a stressed energy name priced in the 30s which repriced to the 50s. The situation continues to evolve and we will comment in due course. On the other hand, the weakest performance also came from another smaller position where the bond price halved based on a new trading level. In this case however, a good part of the bonds was tendered as higher levels in the restructuring process.

Small additions to portfolio

Portfolio Changes During the month, we had one bond getting called and we finally closed out of our position in an Indonesian tyre manufacturer. The sale was in anticipation of a restructuring of the bond, which has recovered significantly from its lows last year. Due to the significant build up in cash, we have had to deploy some of the cash in some defensive names ahead of future distributions to investors.

Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds – mainly within High Yield. The selection process is based on in-house bottom-up research with main focus on companies with strong cash flow and asset backing. The Buy-And-Hold approach also makes it possible to exploit market premiums from less liquid issues.