

## High Yield Value Bonds Short Duration 2017

FIXED INCOME

# Flat month overall

## 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 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 % 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 the 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 America is the focal point, 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.

## Special situations drive performance

**Performance** The fund performance just above zero during the month. The best performing part of the portfolio were Basic Materials, where bonds traded up in line with the strength in commodities. The most disappointing sector in the month was Energy, which experienced a number of bonds re-price down despite rising energy prices. Two names in particular repriced down based on their first proper trading post initial restructurings. We have seen also a significant repricing in a yellow pages business on the back of large transactions in the bonds. Overall we expect this to be positive for the bonds.

## Good calls

**Portfolio Changes** During the month we have had two 2017 bonds getting called ahead of their maturity. In addition we have finally closed out of our stressed Indonesian tyre manufacturer which has recovered significantly from the lows of last year but we now expect the company will need to re-structure in some shape or form. We have re-deployed the cash into a number of lower risk but also lower yielding names across sectors.

## 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.