

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Slightly positive return in May

Global economy is slowly improving

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 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 focal point, where we are seeing acceleration of corruption investigations in Brazil following recent pleas and continued deterioration of the situations in Venezuela.

Positive performance

Performance The fund delivered a satisfactory positive return in May. The energy sector was once again the best performing sector in the portfolio as the oil price continued to rebound. Consumer discretionary was the second best performing sector, whereas information technology and industrials were the two worst performing sectors. All sectors contributed positively to the return of the fund in May.

The best performing position in the portfolio in May was a Kurdish oil producer that benefitted from the oil price rebound and the fact that the company received payments from the Kurdish Regional Government according to the plan. Another strong performing position was a US consumer company that provides automated retail solutions. The company reported stronger earnings than expected and bought back some of its own bonds.

The worst performing position in the portfolio in May was a European marketing company. The business model of the company is under pressure which was confirmed by the reported earnings that were a bit weaker than expected. Another weak performing position was a Mexican oil service company.

Three positions called

Portfolio Changes During May, one new position was added to the portfolio and a couple of positions were rebalanced. Three positions were called and two positions were sold completely during May.

Strategy

The strategy aims to provide a positive absolute return on a mid-term horizon by investing in short-dated corporate bonds. The selection process is based on in-house bottom-up research with focus on companies with strong cash flow. Our approach also makes it possible to exploit market premiums from less liquid issues and out of favour situations.