

## Investment Grade Value Bonds

FIXED INCOME

# Brexit fear almost gone

## Still supported by the ECB

**Markets** Compared to a very volatile first quarter overall, credit spreads remained close to flat during May. In this environment, financial subs moderately outperformed the rest of the market. Energy was among the best performing sectors supported by the past three months' rebound in oil price, whereas the Insurance sector underperformed. Across rating brackets BBBs slightly underperformed the higher rating categories. The credit market remains supported by the ECB's corporate sector purchase program, which could start in the first half of June. Brexit fears were largely priced out of the UK market, so especially British banks were trading significantly tighter by the end of May than two months earlier. We regard this as an opportunity to reduce overall UK exposure at attractive levels, as Brexit related volatility is likely to return before the referendum on June 23 2016.

American 5Y and 10Y yields rose slightly whereas German yields moved somewhat lower. Thus calm and mixed trends in both spreads and interest rates resulted in a May benchmark return of 0.01%.

## Small outperformance

**Performance** May's gross performance of about 0.3% was somewhat better than benchmark (0 %). This was partly due to good performance of the fund's European financials exposure and a positive contribution from the exposure to North American non-financial hybrids.

Year-to-date the gross performance of about 3.1% is running about 0.6% points behind the benchmark. This can be attributed to the lower level of duration in the portfolio (about 5) versus the benchmark (about 6) during Q1 2016 where interest rates fell significantly. During May the duration mis-

match between the fund (6.0) and the benchmark (6.3) decreased by 0.4 and by the end of June we aim to further reduce the gap.

## Barclays sold, Bayer AG added

**Portfolio Changes** During May the exposure to North America increased by 3 percentage points to 59% (versus benchmark 54%) by adding the American transportation company, FedEx Corp, and the financial services company, NASDAQ Inc.

The German pharmaceutical company, Bayer AG, was added following a sharp widening after the release of a USD 62bn takeover bid on the American chemicals company, Monsanto. Even though Bayer's credit metrics will weaken in the event of an acquisition the significant potential synergies largely mitigate this, in our view. Also, the deal may not happen. In both cases we regard the spread widening as fundamentally unjustified.

British Barclays Bank, which was opportunistically added in April when Brexit fears spiked, was sold out in May five cash points higher adding 6bp to the performance in spite of a weak Q1 report. This illustrates the advantage of the fund having risk capacity ready to deploy when sectors, issuers or individual bonds fell heavily out of favor without solid fundamental reasons.

The overall Western European exposure of 24% is somewhat below the benchmark weight of 32%. In terms of risk contribution the fund is less underweight Western Europe. In the Asia/Pacific space the Australian transportation and logistics company, Aurizon Network, was added to the portfolio.

## Strategy

This strategy aims to capture consistent income and minimize principal loss within the Investment Grade universe. 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.