

Value Bonds 2016

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 a rise in commodity prices and continuing signs of a slowly and controlled improving global economy. The current macro conditions are quite uncommon for a credit cycle that should be getting closer to its end and there seems to be consensus that the down-cycle is postponed for now.

Recent numbers out of the US signal that a FED rate hike could be imminent as we approach the meeting in June. Although employment data in May was weak, the market-implied probability of the FED hiking was increased dramatically on the back of strong retail sales and hawkish announcements from central bank representatives.

In Europe, Brexit is still making headlines as we move closer to referendum date on 23rd June. The inconclusive polls are challenging for UK asset pricing and a major source of short-term volatility. Being absent from the financial scene for the past six months, Greece is back with positive news as IMF claimed support to a debt relief for the troubled economy. The need to signal a united Europe seems to be high on the agenda these days.

Oil prices surged another 10 % in May, primarily as a consequence of declining US inventory and global production. Production has among others been impacted by sabotage attacks of important pipelines in Nigeria, wildfires in the proximity of Canadian oil sand fields and finally bad weather and power outages in Iraq

Positive performance

Performance The fund performance was more or less in line with the market, adjusting for the shorter maturity. The small positive return was, to a large extent, related to the general rally in risky assets, but also to single positive credit events.

Highest contribution came from energy-related companies that benefitted from the oil price reaching almost 50 USD. Within the sector, it was primarily a restructured Norwegian E&P company that came out on top. As a result of the restructure we received equity in the company which has appreciated massively after the announcement of positive news.

Reduced Venezuela risk in May

Portfolio Changes The increasing political risk in Venezuela made us sell off all the exposure during May. Besides that we only made a few minor adjustments to the portfolio. Proceeds from maturing bonds were invested in government bonds and other high quality issuers.

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 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.