

Value Bonds 2019 - 50/50

FIXED INCOME

Slightly positive return in May

It's all about June events

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

June will no doubt be an eventful one for markets. Given our short duration and no exposure to periphery Eurozone countries we feel defensively positioned going into June.

Positive performance

Performance The fund delivered a satisfactory positive return in May. The energy sector was once again the best perform-

ing sector in the portfolio as the oil price continued to rebound. Financials was the second best performing sector, whereas information technology and utilities were the two worst performing sectors.

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 Government according to plan. The fund's position in an oil service company that provides seismic surveys for major oil companies continued to perform well in the month on a new agreement with its banks.

The worst performing position in the portfolio in May was a major IT company that dropped by 1.5%, which in itself indicates how strong the portfolio has behaved over the month. The re-pricing of the bond was due to a new issuance that priced at more expensive levels than the existing bonds. On the positive side we note that the company has a very high and stable cash flow stream.

Inflow and one new position

Portfolio Changes During May, five existing positions were increased following inflows into the fund. One position was called and one position was sold completely during May. We sold one of our smallest positions in the portfolio, which was also a relatively risky position in the energy space. It had not performed in line with expectations and also experienced a management change. We have been cautious in deploying our growing cash balance but expect to speed up the deployment in the coming month.

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.