

## Investment Grade Value Bonds

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# No French upset (Part Two)

## Return boosted both by spreads and rates

**Markets** Credit markets were strong through May with tightening credit spreads across the board. Combined with lower interest rates this propelled May's benchmark return to 0.9%. Year-to-date benchmark return amounts to 2.5%.

Emmanuel Macron winning the French presidency on May 7 contributed to the positive sentiment, as he represents continuity more than his opponent, National Front's Marine Le Pen. However, the fundamental challenges of the Eurozone remain unsolved: Hard Brexit negotiations, economic imbalances between Eurozone member states, ongoing problems within the Italian banking system combined with demographic changes and decreasing popular support for the EU project across the board. Thus, we take a cautious stance on Eurozone credits in general and domestically oriented Eurozone credits in particular.

The outlook for North American and Asian credits appear more attractive from both a pricing perspective, an economic growth perspective and a political risk perspective. Thus, the overall outlook for the asset class remains positive, in our view.

## 0.2% behind benchmark

**The Portfolio** May's gross performance of 0.6% was 0.2% behind benchmark (0.9%). Year-to-date gross performance amounts to 2.2%, which is 0.3% below benchmark (2.5%).

It is no surprise that the fund's performance in May somewhat lagged the benchmark. The fund is positioned defensively to weather and exploit sell-offs related to the Eurozone's fundamental economic and political challenges mentioned in the Markets paragraph. So, in an Eurozone rally, the portfolio is expected to underperform somewhat. The shortfall risk is reduced by the fact that absolute effective yields in this part of the Investment Grade universe is already averaging less than 1% with a duration above six. This limits the scope of how much further yields can drop, in our view. In addition, the ECB is likely to reduce its monthly purchases of Eurozone credits, if this blue-sky scenario continues.

In May, we sold the American Aerospace & Defense company, United Technologies, which was originally purchased in Q1 2016. In addition to coupon payments, this investment holding contributed 4bp to overall fund performance. The US Medical Equipment & Devices Manufacturer, Becton Dickinson, burdening performance in April due to the announcement of a bid for one of its competitors, rebounded in May so the negative net contribution is now insignificant.

Regional exposures remained stable through May: North America 56% (up from 55%), Asia/Pacific 11% (unchanged) and Western Europe 27% (unchanged).

[See performance and fund data](#)
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### Strategy

Investment Grade Value Bonds invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in Investment Grade bonds.

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