

Corporate Value Bonds

FIXED INCOME

Interest rates on the rise

US election impacts markets

Markets November was an eventful month in global markets up to and after the US presidential election. High yield markets were negative in November driven by emerging markets and bonds with long maturity, as US interest rates increased sharply, while credit spreads were close to flat. The benchmark dropped by 0.73%, outperforming investment grade due to the lower interest rate sensitivity.

Ahead of the election, macroeconomic numbers were improving in both the US and in Europe. Fundamentally, the election of Trump is likely to be somewhat positive for US credits, while somewhat negative for non-US credits, with the proposal of fiscal easing, through large infrastructure programs, underfinanced tax reliefs and some form of protectionism. At this point credit markets have punished Emerging Market credits in general and Mexican credits in particular.

It seems that OPEC agreed on an oil production cap. The news was released by the end of November and oil prices went from around 45.5 USD to 49 USD on the very last day of the month. More news is expected about the cap.

In the coming months, political risk related to the viability of the Eurozone is likely to pick up due to elections in the Netherlands, France and Germany as well as the constitutional Italian referendum in December.

Positive relative performance

The Portfolio The fund delivered a negative return in November although beating the benchmark also bringing relative performance ahead for the quarter.

The sectors contributing most positively to the fund's relative return were Real Estate and Industrials. Within Real Estate it was in particular a smaller position in an American prison-owner which was added during the previous two months and performed very well post Trump. Within the Industrials sector it was in particular the Turkish industrial position mentioned last month which rebounded. The two sectors contributed approx. 0.2% to the fund's relative return.

The sectors that contributed most negatively were Energy and Telecommunications. Within Energy, despite lagging slightly in general, it was in particular a small position in a drillship operator in emerging markets that underperformed. Within Telecommunications it was in particular a large position in a large American company that underperformed the market during the month. The two sectors contributed approx. -0.2% to the fund's relative return.

During the month one bond was called and several bonds trading with a low yield to call were reduced or exited to make room for new additions to the portfolio. In the beginning of the month, we added to the abovementioned prison owner in the US. The rest of the month, we added to some Energy names in the US and Russia during market weakness.

The changes slightly increased the fund's spread but kept the regional exposure fairly unchanged while the duration remained very close to the benchmark. The cash in the fund looks optically high, but a large part of the cash is reserved for the negative EUR/USD FX hedge, which has grown more negative during the month as the USD has appreciated. We continue to keep net cash around 3%.

See performance and fund data [Click here >](#)

Strategy

Corporate 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 High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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