

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Interest rates on the rise

Markets impacted by US election

Markets The market had been nervously awaiting the US presidential election on the 8th of November. Ahead of the election, consensus was that Hillary Clinton would be the best president from an equity market perspective. At the same time, though, she was seen as the worst candidate for bond markets. None the less, when Donald Trump was elected, the equity market rallied strongly. Short-term interest rates increased modestly, while long interest rates increased strongly.

Even ahead of the election, macroeconomic variables were improving in both the US and in Europe. The bond market's reaction is an indication that Donald Trump's proposed economic policy is seen as a potentially big easing of fiscal policy through large infrastructure programs, underfinanced tax reliefs and some form of protectionism.

The election of Trump affected emerging markets in a negative way. Especially his rhetoric regarding protectionism which will – if executed – have a direct negative effect on trade relations with the US.

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 this and the market is still in a "wait and see mode".

Energy performs again

The Portfolio The fund delivered a return of 0 in November. Energy was by far the best performing sector in the portfolio followed by consumer staples. Health care and materials were the two worst performing sectors.

The best performing position in the portfolio in November was the usual high beta position in the portfolio - the oil service company that provides seismic surveys for major oil companies. The company announced an equity capital increase and an attractive tender of outstanding bonds. It is a company that the team follows closely and it is good to see that the company performs by delivering better than expected earnings. Another company from the oil E&P sector also delivered solid return and explain the majority of the energy return contribution.

The worst performing position in the portfolio in November was an Australian mining company under restructuring. Another weak performing position was yet again another company under restructuring based in the E&P energy sector.

During November, two positions were called and the proceeds were reinvested in other names of the portfolio. Currently, the cash position in the portfolio is high in order to cover the negative value of FX hedges primarily related to USD hedging.

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Strategy

High Yield Value Bonds Short Duration 2018 invests in short-dated 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. The maturity date of the Fund is December 31, 2018.

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