

Investment Grade Value Bonds

FIXED INCOME

Positioned for political uncertainty

Negative absolute return

Markets Credit markets were negative through November with credit spreads somewhat widening and long US interest rates increasing sharply. Thus, benchmark return dropped by 2.24% in November leaving a material dent in the benchmark's year-to-date return at 3.63%. Fundamentally, the election of Trump is likely to be somewhat positive for US credits and somewhat negative for non-US credits. At this point credit markets have marked down EM-credits in general and Mexican credits in particular. 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.

0.42% outperformance

The Portfolio November's gross performance of -1.82% was 0.42% better than benchmark (-2.24%). Performance attribution was generally broad based and was helped by a continued rebound in the positions in Deutsche Bank and Barclays Bank. Those positions were divested in November after contributing about 16bp to absolute fund performance and 25-30bp to relative performance over the past few months. The ability to exploit excessive sell-offs not supported by fundamentals owes to the defensive nature of the portfolio. Thus, our focus on capital preservation in a low interest and now spread environment goes hand in hand with the ability to take advantage of sell-offs. With an underweight of Eurozone credits, the fund is positioned to weather and potentially exploit sell-offs related to increased economic and political uncertainty. Year-to-date the gross performance of 4.15% is 0.52% ahead of benchmark (3.63%) in spite of having a lower level of duration in the portfolio (about 5) versus

the benchmark (about 6) during Q1 2016 where interest rates fell sharply. During H1 2016, the duration mismatch resulted in an opportunity cost of approximately 1.0%. We aim to keep future duration mismatch low, so it no more materially can influence relative performance.

Prior to the US election, the fund was 0-weighted in the state-owned Mexican oil company Petroleos Mexicanos (Pemex). Post-election one of the company's long-term bonds was added to the portfolio at a more than 12 cash points discount to the pre-election level. We believe that oil, as a commodity, is unlikely to be subject to future Trump-import duties. In addition, Pemex benefits from dollar appreciation against the Mexican pesos. Thus, from a fundamental point-of-view, we see the cash price drop as an overreaction. Cash levels were relatively high by end-month, which in part was due to the above-mentioned divestments. Another reason being that the recent appreciation of the USD has pushed the fund's EUR/USD FX hedge out-of-the-money. Through November, the regional weights were fairly stable: North America 53% (up from 52%), Western Europe 28% (down from 30%) and Asia/Pacific resting at 12%. For some time, the fund has carried a five-star Morningstar rating based on its three-year and five-year history. In November 2016, the fund reached its 10-year anniversary, which means that also 10-year performance will be taken into account. Due to poor performance and high volatility in the period November 2006-November 2011 the fund is likely to lose two of its current five stars. The rating change is expected to take effect in December 2016, and is not related to performance over the past five years. A risk framework developed in 2015 effectively prevents the fund from re-experiencing what happened in 2006-2011.

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

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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