

Value Bonds 2016

FIXED INCOME

Trump victory impacting rates

Markets were wrong (again)

Markets Once again markets proved to be wrong in predicting both the outcome and the impact of major political events. As with the Brexit, the election of Trump took markets by surprise.

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 were relatively stable, 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 in some form of protectionism.

Since short interest rates and expectations were relatively stable, it appears that the bond market expects the Fed to not fully neutralize the inflationary impacts of Trump's policies.

Commodity prices also benefited from the possibility of increased US infrastructure spending, led by copper prices that

reached a 17-month high in November. Meantime, OPEC was finally able to agree a production cut of 1.2 million barrels a day, pushing Brent crude prices to USD 52.

Outperforming the market

The Portfolio This close to final maturity, the sensitivity to interest rate movements are close to zero. Thus the portfolio was not affected by the steepening of the interest rate curve. Fund performance in November was just slightly above zero, which was significantly better than market performance of respectively -0.7% (High Yield) and -2.3% (Investment Grade).

Energy and Consumer Discretionary were best performing sectors during the month, contributing with 30 bps. Especially the position in a Ukrainian agriculture business performed strongly on the basis of a successful restructure. Only financials contributed negatively due to slightly higher rate sensitivity.

As of end November we have stopped reinvesting the proceeds from matured bonds and the cash position will slowly grow towards the final maturity date which is expected to be 16 December. Investors can expect to receive cash shortly hereafter.

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Strategy

Value Bonds 2016 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 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2016.

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