

Value Bonds 2019 - 50/50

FIXED INCOME

A month of increasing rates

US Elections outcome

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".

Portfolio performance

The Portfolio delivered a slightly negative total return in November where all sectors (except Energy) contributed nega-

tively. The negative total return has been driven by the mentioned increases in interest rates, the credit component of the total return was positive for the fund.

The best performing positions in the portfolio in November was from the high beta segment of the portfolio. The best performer was an 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 returns and explains the majority of the energy return contribution.

On the negative side, the largest return contribution was from a Mexican consumer products manufacturer that weakened following the US presidential election. Following the weakening we have added 0.4% in the name, as we continue to view the credit as strong and the price reaction as slightly overdone.

In addition, we have added two Turkish IG banks to the fund with 1% in each name. We have also added a Mexican consumer finance name to the fund following the election. We have sold out position in our Korean Electricity company and one of our US pharma companies tendered their bonds. The proceeds from these transactions were reinvested in our current holdings. Increasing the portfolios overall yield. Currently, the cash position in the portfolio is high in order to cover the negative value of FX hedges primarily related to USD hedging.

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

Strategy

Value Bonds 2019 50/50 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, 2019.

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