

Investment Grade Value Bonds

FIXED INCOME

Slightly weaker credit markets

Spreads edging higher

Markets Credit spreads edged higher through November. In addition, slightly higher yields contributed to a negative benchmark return of 0.22 percent. Year to date benchmark return amounted to 3.32 percent.

The best performing sectors again were Automobiles & Parts and Oil & Gas followed by Media. Health Care, Food & Beverage. Telecommunications underperformed the broader market.

In November, negotiations between Merkel's CDU/CSU and FDP and Die Grüne broke down sparking some German political uncertainty. Even though this is a reminder of the political fundamental economic challenges facing the Eurozone, markets took little notice. Nevertheless, we remain cautious (i.e. underweight) on the Eurozone part of the credit universe for valuation reasons.

Par with benchmark

The Portfolio November's negative gross performance of 0.25 percent was 0.03 percentage points below benchmark's negative return of 0.22 percent. Year-to-date gross performance amounted to 3.22 percent, which was pretty close to benchmark (3.32 percent).

The fund has for some time been positioned defensively to weather and possibly exploit sell-offs related to the Eurozone's fundamental economic and political challenges. So, in a Eurozone rally, the portfolio is expected to underperform somewhat.

The shortfall risk is reduced by the fact that absolute effective yields in this part of the Investment Grade universe is already averaging less than one percent with a duration above six. This limits the scope of how much further absolute yields and spreads can drop, in our view. In addition, the European Central Bank is likely to reduce its monthly purchases of Eurozone credits, should this blue-sky scenario continue.

In spite of the fact that the Eurozone underweight so far has not paid off, the portfolio was only slightly behind benchmark year to date. This is partly due to material contributions from individual holdings including a position in a global leading Swiss agribusiness. The holding in the Israeli Pharmaceutical Company, burdened October's performance by about five basis points. Through November, we reduced the position in this name.

The Western European and North American holding remained at 25 percent and 53 percent respectively. Whilst the Asia/Pacific exposure increased to 15 percent from 13 percent. The latter was due to the addition of a Japanese state owned Development Bank.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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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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