

Investment Grade Value Bonds

FIXED INCOME

Limited importance of US election

Higher yields dominated

Markets Credit markets were slightly positive through October with non-financials' credit spreads being stable and credit spreads among financials tightening somewhat after September's Deutsche Bank scare lost momentum. Thus, financials outperformed non-financials. Interest rates, however, rose quite significantly completely wiping out the positive contribution from tighter spreads. Therefore, October's negative benchmark return of 1.04% was entirely due to German, UK and US 5- and 10-years rates jumping by 18bp, 37bp, 16bp and 28bp, 50bp, 23bp respectively. Year to date benchmark return stands at 6.34% stemming from both spread tightening and dropping interest rates since year-end 2015.

We expect the upcoming US election to have relatively limited impact on credit fundamentals within the IG space. First, Clinton, if elected, represents 'more of the same'. Second, Trump, if elected, is likely to moderate his politics when in power, as any other US president having to work together with Congress. If Trump manages to repatriate cash sitting in US corporates' overseas accounts through tax incentives and/or if Trump rolls back or dilute some international free-trade agreements, both could be seen as somewhat positive for US credits and somewhat negative for non-US credits. The net effect is likely to be limited. The US weight in portfolio as well as the benchmark is 50%.

0.38% outperformance

The Portfolio October's gross performance of -0.66% was 0.38% better than benchmark (-1.04%). Performance attribution was broad based and the newly purchased position in Deutsche Bank contributed about 4bp to fund performance.

Due to the magnitude of the Deutsche Bank rebound, part of the gain has been realised. A better-than-expected Q3 report strengthened the fundamental basis for the remaining investment. The ability to buy Deutsche Bank at the sell-off in September owes to the defensive nature of the portfolio. Thus, the 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 not supported by fundamentals.

Year-to-date the gross performance of 6.74% is 0.39% above benchmark (6.34%) 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.

Through October, the regional weights were quite stable in the portfolio: North America 52% (up from 51%), Western Europe 30% (down from 31%) 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 will reach 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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