

Investment Grade Value Bonds

FIXED INCOME

Strong market and performance

Spreads grinding even tighter

Markets Credit spreads tightened further through October. In addition, lower yields in Europe contributed to a healthy monthly benchmark return of 0.49 percent. Year to date benchmark return amounted to 3.55 percent.

The best performing sectors again were Automobiles & Parts and Oil & Gas followed by Telecommunications. Chemicals, Construction & Materials and Media underperformed the general market.

At the October-meeting President of the European Central Bank, Mario Draghi, indicated that the purchase program would continue into 2018. In spite of some scale down of the program, this effectively supports European risky assets, including Eurozone corporate bonds.

This contributes to keeping the Eurozone's fundamental economic and political challenges out of the headlines for the time being. Nevertheless, we remain cautious (i.e. underweight) on the Eurozone part of the credit universe for valuation reasons.

0.27 percent above benchmark

The Portfolio October's gross performance of 0.76 percent was 0.27 percentage points better than benchmark (0.49 percent). Year-to-date gross performance amounted to 3.48 percent, which was pretty close to benchmark (3.55 percent).

For some time the fund has 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 was 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 ECB is likely to reduce its monthly purchases of Eurozone credits, if this blue-sky scenario continues.

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. In October alone performance was helped by nine basis points from a position in Swiss agribusiness, of which half was added in the first week of October. Apart from this, the only other addition was a state owned Development Bank.

The holding in the Israeli Pharmaceutical Company, burdened October's performance by three basis points, reversing September's gain on this position.

The Western European holding increased to 25 percent from 24 percent. The Asia/Pacific exposure remained at 13 percent, whereas the North American exposure drifted to 53 percent from 55 percent, partially due to profit taking in a U.S. telco and retailer.

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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