

Value Bonds 2018 - 50/50

FIXED INCOME

European economy strengthening

ECB reducing monetary stimulus

Markets In October credit markets continued the positive streak that has characterized most of 2017. Macroeconomic figures released during the month supported the broadly accepted perception of self-sustainable economic growth.

The big monetary policy event of the month was the ECB meeting, where Draghi announced the extension of QE to September 2018, although lowering the purchase to EUR 30 billion from January. An acknowledgement of the solid growth apparent in the Eurozone, but it also leaves the door open for further adjustments. Despite downsizing the monthly bond purchases, sovereign bonds in the region gained 1.1 percent over the month. Inflation readings in the Eurozone will be crucial for the QE outlook, given the unexpectedly cooler headline inflation release in October of 1.4 percent for September's year on year figure.

In the U.S., unemployment fell further, reaching 4.2 percent - a level last matched in February 2001. Non-farm payrolls dipped significantly, as the data showed 33,000 fewer jobs for the month compared with the more than 150,000 added in August. Hurricanes Irma and Harvey had a significant impact on numbers, thus markets expect to see a bounce-back next month. Although non-farm payrolls fell, the underlying labor market remained healthy and showed signs of improving salaries.

The leading indicators are still showing that we can expect decent growth over the coming months. However, the U.S.

economy will most likely decelerate somewhat after year-end.

Banks driving performance

The Portfolio The fund provided a positive return of 0.16 percent in October, hence satisfactory compared to the duration of the portfolio. The broader Investment Grade and High Yield markets ended the month respectively 0.33 and 0.28 percent higher. Year to date the fund reached 2.63 percent.

The uptick in South European economies resulted in Financials being the main driver of performance. Highest contribution came from our position in Spanish bank that despite the Catalan conflict rose with more than 2.0 percent during October.

Energy came in second in terms of contribution to return, fueled by the approx. five percent increase in oil prices. Worst single performer was also in Energy, a Norwegian oil company operating in the Middle East faced headwinds in the wake of the Iraqi government seizing control of Kurdish oil assets as a response to the Kurdish election on independence. On this basis, we decided to reduce the position.

In October, two positions was called and two matured. No new positions was added during the month.

We are very careful to balance the risk budget of portfolio with the short maturity, so we are mainly targeting new investments with ratings of BB or better.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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Strategy

Value Bonds 2018 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

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