

Emerging Markets Corporate Value Bonds

FIXED INCOME

Outperformance in September

Rollercoaster in September

Markets During the first part of September, the market grew nervous about the state of expansionary monetary policy. 10 year US rates increased by almost 20 basis points. This was triggered by concern about the future path of monetary policy, especially in Japan and in the US, but also at the ECB. The Central Bank of Japan revised its monetary policy somewhat, but effectively did not change the overall expansionary monetary policy. The Central Bank in the US decided not to hike at its September meeting, and – more importantly – lowered their own expectation about the number of future hikes in 2017 to two. At the same time, they still expect to hike once in 2016, so it seems that the FED is on track to hike by their December meeting. This eased the market somewhat and 10 year rates ended September relatively unchanged, but the curve steepened.

Oil was up in September as hopes of a production cap increased at OPEC's meeting in Algeria. OPEC members will wait until the next official meeting in November to complete details of the production cap, including production quotas for individual countries.

The US election made its mark on Emerging Markets in September. The market is nervous about a Donald Trump victory and possible trade renegotiations with countries in Emerging Markets. This created a bit of currency volatility with the Mexican peso in September. Mexico sovereign bonds and credit bonds did not perform as well in September for the same reasons. Moody's finally downgraded Turkey's sovereign rating to junk after they put Turkey on review for downgrade

right after the failed coup attempt. This did affect Turkish corporate bonds negatively, but the effects were more severe on sovereign bonds.

Positive performance

The Portfolio The portfolio outperformed the benchmark.

The US treasury curve steepened in September on the back of monetary policy uncertainty. The portfolio has less duration than the benchmark, so in this respect the portfolio benefitted from this move.

One of the best performing regions in October was Eastern European credits, and in particular Russian credits. The portfolio is overweight in Russian credits and benefitted from this. Standard and Poor's upgraded their outlook on various Russian corporates in September. Gazprom, Gazprom Neft, Lukoil, Rosneft and Severstal were all revised to stable from negative. The rating action followed the revised outlook of the Russian sovereign from negative to stable in mid-September. Together with higher oil, this propelled some positive momentum with Russian corporate names.

Best performing credit was a Russian steel manufacturer and a Russian oil producer. Worst performing credit was a mobile company with presence in the Caribbean, because of disappointing earnings numbers.

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

Strategy

Emerging Markets Corporate Value Bonds primarily invests in Emerging Markets 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. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extent non-rated corporate bonds.

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