

## High Yield Value Bonds Short Duration 2018

FIXED INCOME

# Energy lifts performance

## The holiday season is over

**Markets** Opposite of last month, September turned out to be much more active in terms of market-impacting news.

As we have witnessed all year, Central banks are pushing back the frontiers of monetary policy on a daily basis, and September was no exception. Bank of Japan announced a change of their stimulus program, from expanding money supply to controlling interest rates. The US Fed signaled that a hike is likely in December, but lowered the expected number of hikes (to two from three) in 2017. The ECB continues the aggressive buying program and as a result several new issues priced with negative yield (companies receiving interest from borrowing in the market).

The other major headline in September was the meeting among large oil-producing countries like OPEC and Russia, in another attempt to reach an agreement to cut production to balance the demand-deficit. Sentiment from the meeting was positive, but details on actual implementation is still far from agreed. The lack of concrete measures and a report from IEA stating that oil markets will remain oversupplied well into 2017, meant that oil prices ended the month unchanged.

Finally, by end of September it was announced that Deutsche Bank was met with a fine of 14 billion USD for their involvement in the financial crisis in 2008/2009. To make matters worse, a handful of the banks high-profile clients announced the withdrawal of liquidity from the bank. Concerned with likelihood of the support of the German government, investors fled and the market value of the bank dropped to lowest level in more than 25 years.

## Positive performance

**The Portfolio** The fund delivered a satisfactory positive return in September. Energy was by far the best performing sector in the portfolio followed by industrials. Financials and information technology were the two worst performing sectors.

The best performing position in the portfolio in September was an energy E&P company. The company has its main assets in Asia where production costs are very low. The company is therefore able to generate healthy cash flows even at current low oil price levels. Last year the company was bought by a UK energy company that has a positive net cash position. Another strong performing position was the usual high beta position in the portfolio - the oil service company that provides seismic surveys for major oil companies. This company is the strongest in the sector with the most cost efficient seismic vessels. During September, the team met the company to get an update on the situation. After the meeting the team remains very confident about the position.

The worst performing position in the portfolio in September was a US IT company. Another IT company with a lower credit rating made a bid for this company months ago. In September the deal went through which caused the credit agencies to lower their credit rating of our bond. This resulted in a 4% drop in the bond price, but since then it has recovered 2%. Another weak performing position was a major UK bank.

There were no significant changes in the portfolio during September.

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

## Strategy

High Yield Value Bonds Short Duration 2018 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. At least 2/3 of the portfolio are invested in High Yield bonds. The maturity date of the Fund is December 31, 2018.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at [sparinvest.lu](http://sparinvest.lu). There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.