

Value Bonds 2016

FIXED INCOME

Slightly positive performance

The holiday season is over

Markets Opposite to 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 the 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 the 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 bank's high-profile clients announced the withdrawal of liquidity and other financial engagements from the bank. Concerned with the 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.

Performance in line with market

The Portfolio Fund performance in September was just slightly above zero, which was in line with market performance of respectively 0.41% (High Yield) and -0,35% (Investment Grade).

Industrials and Materials were the best performing sectors during the month. Only financials contributed negatively, all impacted by the Deutsche Bank situation and general concern with the health of the European banking industry.

We keep reinvesting the proceeds from matured bonds in short-term money market-like bonds that provide better yield than cash deposit, although the maturity constraint is making it more difficult to source attractive investments.

We expect performance to remain neutral until December 2016 – which compared to other short-dated investment alternatives still is considered quite attractive.

See performance and fund data

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Strategy

Value Bonds 2016 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 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2016.

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