

Emerging Markets Corporate Value Bonds

FIXED INCOME

Spreads Buffer Rate Moves

Rate Moves

Markets The month of September was characterized by several changes in recent trends. Long interest rates increased as a result of especially stronger European macroeconomic figures. U.S. macro releases have not impressed analysts in recent months, but in September, the U.S. economy regained some traction and U.S. 10-year rates increased 20 basis points, whereas German rates only increased by about half that.

The interest rate spread between the German and U.S. government bonds widened again in September, which led to a halt in the rally in EUR/USD. Higher growth expectations led to a rally in the price of oil of almost 10 percent and long-term inflation expectations (5Y5Y inflation swaps) increased moderately.

In credit markets, high yield corporate bonds were doing well – helped by the macroeconomic outlook, where leading indicators still showed that we could expect further improvement in growth rates across the OECD countries over the coming six months – but especially in Europe and Japan.

Performance Pause

The Portfolio The fund underperformed the benchmark in the month, but was still marginally positive. Based on Bank of America indices, EM high yield corporates are the second best

performing fixed income asset class following EM sovereign debt.

In September we did not have any major regional or country specific moves. Lower rated securities outperformed high rated securities due to the move in interest rates as credit spreads buffered the negative performance coming from interest rates rising.

Our holding in an El Salvador utility was our best performing position in the month, followed by a Russian steel holding. Our holding in restructured Ukrainian agriculture business was biggest negative performer during the month.

As the summer period officially ended in September, we have seen a pickup in issuance from various corporates. We will be taking part in this new issuance as short dated bonds are refinanced. As we are overweight, short dated bonds we have the ability to absorb newly issued bonds.

During the month, we added seven new positions across the various regions. We had three positions mature or being called and one sold out to relative value. We remain underweight South Korean credits, which are holding very steady given the headlines surrounding their Northern neighbours.

See performance and fund data

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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.

Return is calculated gross of fees and excluding swing.

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