

Ethical High Yield Value Bonds

FIXED INCOME

A good month for high yield

Oil contributed to a strong month

Markets High yield spreads tightened and volatility decreased throughout September just as we saw a slight increase in volatility during August. The benchmark returned 0.65 percent in September bringing the year-to-date return to 5.79 percent.

The main driver behind the strong high yield market was the Energy sector, which contributed with almost half of this month's return as oil rose approximately 10 percent lifting the riskiest part of the sector. The macroeconomic outlook furthermore helped the market, where leading indicators still showed that we could expect further improvement in growth rates across the OECD countries over the coming six months.

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

The German general election where Chancellor Merkel's CDU/CSU party lost more seats than indicated by opinion polls and the political unrest related to an independence referendum in Catalonia failed to impact credit markets. Thus, the Eurozone's fundamental challenges remain out of the headlines. Nevertheless, we remain cautious on the Eurozone for valuation reasons.

Return is calculated gross of fees and excluding swing.

Performance improved further

The Portfolio The fund provided a positive return of 0.78 percent for September, 0.13 percent ahead of the benchmark and thus 0.72 percent ahead of the benchmark year-to-date.

All sectors contributed positively to the funds return whereas on a relative basis (to the benchmark) it was more mixed. Energy was the sector that contributed most to the funds return but was also the sector that contributed most negatively to the relative return, which reflects our more defensive positioning in the sector. Healthcare was the second best contributor to the funds return and best on a relative basis. This was mainly driven by two bonds in two pharmaceutical companies in North America, which performed very well, on positive news.

During the month, the fund participated in three new issues and we added further to some positions that we started to build last month. Three names were exited; two that had reached our target and one within Healthcare that underperformed on bad news, and continued to underperform after our exit.

The activity during the month did not lead to any large changes in the risk profile and the fund continues to have a higher spread and slightly lower duration than the benchmark

As the summer period officially ended in September, we have seen a pickup in issuance from various corporates. With a healthy cash balance, we expect taking part in new issues selectively in the coming month.

See performance and fund data

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Strategy

Ethical High Yield Value Bonds invests in global 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. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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