

High Yield Value Bonds Short Duration 2018

FIXED INCOME

Optimism sparked rising rates

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 broad High Yield market returned 0.65 percent in September bringing the YTD 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.

Energy as main performance driver

The Portfolio The fund provided a positive return of 0.25 percent for September, hence very satisfying compared to the duration of the portfolio. The duration of the portfolio is currently lower than one year. Year to date the return has reached 2.64 percent.

All sectors contributed positively to the funds return in September. Rising oil prices had immediate impact on the Energy related companies, which contributed most to the funds' performance, mainly driven by the good performance of two bonds from companies operating in Emerging Markets. No major movements in any single bonds during the month.

In September, two positions were called and two names were exited; both had reached our target and was sold in a positive market. We managed to reinvest the proceeds into eight new positions across sectors and regions.

We are very careful to balance the risk budget of portfolio with the short maturity, so are mainly targeting new investments with ratings of BB or better.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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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.

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