

## Investment Grade Value Bonds

FIXED INCOME

# Return burdened by higher rates

## Solid demand for the asset class

**Markets** Credit spreads tightened slightly through September in spite of the issuance of approximately nom. USD/EUR 165bn of new IG paper. This proves yet again, that demand for the IG asset class remains solid. However, increasing interest rates dragged September's absolute benchmark return into negative territory (0.47 percent). Year to date benchmark return amounts to 3.01 percent.

The best performing sectors were Automobiles & Parts, Oil & Gas as well as Health Care. The latter was helped by a partial rebound in the pharmaceutical company, Teva, following the announcement of a new CEO and various other credit positive news flow. Chemicals, Construction & Materials and Media underperformed the general market.

The German general election had no material impact in credit markets even though Chancellor Merkel's CDU/CSU party lost more seats than indicated by opinion polls. Political unrest related to an independence referendum in Catalonia also failed to impact credit markets. Thus, the Eurozone's fundamental challenges remain out of the headlines. Nevertheless, we remain cautious (i.e. underweight) on the Eurozone part of the credit universe for valuation reasons.

## 0.11 percent better than benchmark

**The Portfolio** September's negative gross performance of 0.36 percent was 0.11 percentage points better than benchmark (minus 0.47 percent). Year-to-date gross performance

amounted to 2.70 percent, which is 0.31 percent below benchmark (3.01 percent).

It is no surprise that the fund's performance year to date somewhat lags the benchmark. The fund was positioned defensively to weather and possibly exploit sell-offs related to the Eurozone's fundamental economic and political challenges. So, in a Eurozone rally, the portfolio is expected to underperform somewhat. The shortfall risk is reduced by the fact that absolute effective yields in this part of the Investment Grade universe is already averaging less than one percent with a duration above six. This limits the scope of how much further absolute yields and spreads can drop, in our view. In addition, the ECB is likely to reduce its monthly purchases of Eurozone credits, if this blue-sky scenario continues.

September's performance was helped by a three basis points contribution from the holding in the Pharmaceutical Company, Teva, which benefitted from the announcement of a new CEO, the completion of amendments to its credit facilities and disposal gains of USD 2.48bn for its Specialty Global Women's Health Portfolio. This supports our view that the setback suffered in August in this name was overdone.

We added exposure in the Danish based transport company, DSV, and the Canadian auto parts manufacturer, Magna International. We reduced fund exposure in the German automaker, VW.

Return is calculated gross of fees and excluding swing.

See performance and fund data

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### Strategy

Investment Grade 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 Investment Grade bonds.

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