

## Value Bonds 2018 - 50/50

FIXED INCOME

# Optimism sparked rising rates

## Strong economic key figures

**Markets** Credit spreads tightened and volatility decreased throughout September just as we saw a slight increase in volatility during August.

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.

The broad High Yield market returned 0.65 percent in September bringing the YTD return to 5.79 percent. Investment

Grade, having higher interest rate duration, felt the pain of rising rates and returned minus 0.47 percent on the month.

## Energy as main performance driver

**The Portfolio** The fund provided a positive return of 0.24 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 2.46 percent.

All sectors, except Materials, 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 return. Financials was another good contributor to the funds' performance, mainly driven by the rising rates that directly links to the banks revenue stream. No major movements in any single bonds during the month.

In September, one position was 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 six 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

Value Bonds 2018 50/50 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. Up to 50% of the portfolio are invested in Investment Grade bonds and up to 50% in High Yield. The maturity date of the Fund is December 31, 2018.

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