

## Value Bonds 2019 - 50/50

FIXED INCOME

# Volatile Emerging Markets

## Positive credit markets

**Markets** After a couple of challenging months, credit markets turned positive in Q3. Credit spreads tightened across the space, but were still at a higher level compared to the beginning of the year. Positive economic news during July affected the government rates and both in U.S. and Europe rates rose, dragging down the total return of the credit market.

During August, we witnessed a number of significant market events. First, the Turkish Lira dropped heavily (25 percent) vs. the U.S. dollar, which led to a steep sell-off in Turkish corporate bonds. This happened as the culmination of growing unease in emerging market debt markets and a chronically strengthening U.S. dollar. In addition, the ZAR and ARS dropped heavily as South Africa and Argentina due to their dependency of foreign capital were treated like Turkey.

The weakness in emerging markets turned in September as spreads tightened, driven by a rebound in Emerging Markets and U.S. spreads tightening to the tightest levels since 2007. The benchmark had a positive return of 0.65 percent, bringing the year-to-date return to minus 0.51 percent.

Emerging Markets calmed down somewhat after a couple of volatile months. The Turkish Lira rallied about 10 percent

against the U.S. dollar, which resulted in a significant rebound in bond prices of Turkish issuers. The Argentine Peso continued its downtrend despite positive news that IMF will increase its credit line, which dampened the rebound in Argentinian corporate bonds.

## Stable return

**The Portfolio** The fund delivered a stable return during the quarter, but was not quite able to follow the strong returns of the overall credit markets. This is primarily due to the safe and short dated nature of the product.

In Q3, the financial and telecommunications sectors provided the largest contribution to the fund return. On an issuer level, no specific issuers stood out from the pack with the majority adding to the fund return.

In Q3, we decided to sell all exposures towards Turkey given the high uncertainty surrounding the country. Further, we sold one position in a Russian bank. Finally, two positions were called.

The proceeds will be carefully reinvested when the right opportunities presents themselves, with respect to the fund risk budget and considering the short maturity.

Return is calculated gross of fees and excluding swing.

See performance and fund data [Click here >](#)

## Strategy

Value Bonds 2019 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. At least 50% of the portfolio are invested in Investment Grade bonds. The maturity date of the Fund is December 31, 2019.

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