

DPAM INVEST B BONDS EUR - F

Monthly Institutional Factsheet | January 31, 2017

Morningstar ★★★★★ (*)

MANAGER COMMENT

Market comment

As of January 20, Donald John Trump is the 45th President of the United States of America. In the immediate aftermath of his inauguration, he launched a series of executive orders signalling the new way forward. People who were doubting whether the more controversial themes from the campaign would be softened quickly realized that the inauguration is no game changer for style nor content. When more details will be made public on tax reforms, fiscal stimulus, infrastructure spending, trade policy, deregulation and foreign policy, financial markets will be able to make a more comprehensive assessment.

In the meantime, somewhat more clarity was presented by Theresa May via the publication of a white paper on the guiding principles for Britain's negotiations with the EU. While formal negotiations will not start before Article 50 is triggered, the white paper seems to suggest that the UK will not seek to remain within the Single Market. It prefers to keep control over immigration and its sovereignty instead.

The continued and coordinated momentum in economic data around the globe combined with a heavy month of supply in Eurozone government bonds pushed interest rates higher and curves steeper in the Eurozone. This more than compensated the solid rally witnessed over the last two weeks of 2016.

Eurozone growth is being revised up and headline inflation continues to surprise to the upside. While the Eurostat flash estimate for headline inflation printed at 1.8% for January, the ECB kept its dovish tone much alive during its first meeting of 2017. It firmly believes that the underlying inflation pressures remain weak and one needs to look through the expected rise in headline inflation numbers over the coming months due to base effects. Mario Draghi confirmed that the monthly amounts of the net asset purchase program will be reduced from April 2017 onwards from EUR80 billion to EUR60 billion until the end of 2017. The program remains de facto open-ended since it can continue beyond 2017 if there is no 'sustained adjustment in the path of inflation consistent with the ECB's objective'. The uncertain political and economic outlook also keeps many council members wary of any unwarranted tightening pressure in financial conditions.

While Donald Trump has dominated headlines, the Fed signalled that the US economy is 'doing quite well'. It seems to link the changes in financial conditions to expectations of more expansionary fiscal policies and possible tax reforms. Market pricing seems to suggest that the next hike will only come at the June meeting.

On a cross-country basis, we have witnessed a substantial amount of divergence in performance throughout the Eurozone fixed income market. Spain (-1.37%) was able to limit the damage in this difficult month for Eurozone rates. The economic growth story continues, as evidenced by firmer confidence indicators and decreasing unemployment numbers. Fitch confirmed the BBB+ rating and did not rule out further rating upgrades if the budget continues to show improvements.

Germany (-1.40%) closely followed Spain in the performance tables. While the elections are only due in the autumn, the centre-left Sozialdemokratische Partei Deutschlands (SPD) announced Martin Schulz as candidate for Chancellor. His popularity is on the rise in the opinion polls to the detriment of mainly the right-wing Alternative für Deutschland (AfD). Finland (-1.85%), the Netherlands (-1.88%), Austria (-2.06%) and Portugal (-2.07%) showed a similar monthly performance without much news. Ireland (-2.46%) continues to be impacted by the Brexit discussions.

The elections in France (-2.80%) are causing headaches to many international investors due to the right-wing rhetoric on a Eurozone exit of France, the scandals around Fillon and the surprise win of Hamon in the Socialist primaries. Paradoxically, the economy is gaining traction in France. Italy (-2.84%) witnessed a significant spread widening due to the increased possibility of early elections based upon the constitutional court ruling on the electoral law ('Italicum').

Performance

The Net Asset Value of the fund (F share) decreased by 1.78% versus a drop of 2.10% for the JPMorgan EMU Government Bond Total Return Index over the course of January. The 32 basis points of excess performance can be explained by various factors. Ten basis points can be attributed to our duration underweight and curve positioning. Almost 12 basis points are derived from the country allocation where the overweight in Spanish bonds and the underweight in France were the main drivers. The outperformance of our inflation-linked exposure and some selection effects complete the performance picture.

Outlook & strategy going forward

We continue to believe that we are in the middle of a cyclical recovery. The upward trend in core interest rates and steeper curves however has been material since the summer of 2016. While we believe that the economic momentum can easily be extended for a few quarters, bond markets have the tendency to look beyond this timeframe and search for a catalyst to re-price. Although there is never a clear sky, we feel that the current risk/reward profile of a large duration underweight is less appealing than before and therefore we adjusted the portfolio accordingly. Fading optimism about the economic policy mix of the new President of the United States, stubbornly low core inflation numbers and a high level of (geo)political uncertainty are all contributing factors.

There continues to remain a clear lack of structural reforms and supply-side measures to boost the economic potential on both sides of the Atlantic. We also feel that some investors could disregard the typical safe-haven status of US Treasury bonds and put money to work in German bunds if they were to become uncomfortable with the direction of the Trump administration. In addition to this, the ECB will remain a forceful buyer throughout 2017, limiting any sharp increase interest rates.

We continue to like inflation-linked bonds and look at country spreads in a more tactical way. Our base case scenario remains that no election accident will happen within the Eurozone.

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OVERVIEW

Asset Class	Bonds
Category	Government
Strategy	Active Strategy
Fund Of	DPAM Invest B
Legal Structure	SICAV
Domicile	Belgium
Reference Currency	EUR
Liquidity	Daily
Sub-fund launch	18.09.1996
First NAV date	08.12.2008
Countries notified for public sale	AT, BE, CH, DE, ES, FR, GB, IT, LU, NL
ISIN	BE0948508420
Entry Fee	Maximum 1 %
Exit Fee	0.00%
Management Fee	0.20%
TER (31.12.2016)	0.37%
Minimum investment	EUR 25'000
NAV (Capitalisation)	80.58
Assets (all classes)	mn EUR 337.63
Number of positions	66

PERFORMANCES (%)

	Fund	Index
1 month	-1.78	-2.10
YTD	-1.78	-2.10
1 year	-0.40	-0.95
3 years annualised	4.54	4.45
5 years annualised	5.44	5.55
10 years annualised	-	-

PORTFOLIO CHARACTERISTICS

	Fund	Index
Maturity (Years)	8.46	9.16
Duration (Years)	7.11	7.58
Modified Duration (%)	7.05	7.52
Yield to Worst (%)	0.88	0.73
YTW (ModDur Weighted) (%)	1.33	1.26
Number of Issuers	18	12

INVESTMENT UNIVERSE

The fund mainly invests (without any sectorial restrictions) in bonds and/or other debt securities, fixed or floating, denominated in euro and issued or guaranteed by EU Member States.

INDEX

JPM EMU Government Bond Total Return

BREAKDOWNS (%)

Countries	Fund	Index	Credit Ratings (Scale S&P)	Fund	Index
Italy	27.9	23.1	AAA	22.0	23.5
Spain	21.2	13.6	AA+	3.9	5.2
Germany	16.9	17.9	AA	10.3	24.4
France	9.8	24.4	AA-	6.9	6.3
Belgium	7.4	6.3	A	3.8	2.0
Austria	3.9	3.7	A-	2.0	0.0
Ireland	3.8	2.0	BBB+	21.2	13.7
Sweden	2.4	0.0	BBB	27.9	23.1
Netherlands	2.2	5.6	High-Yield	0.0	1.9
Lithuania	2.0	0.0	Cash	1.9	0.0
Other	0.5	3.4			
Cash	1.9	0.0			

Modified Durations	Fund	Index	Currencies	Fund	Index
< 3%	10.6	21.2	Euro	100.0	100.0
3 - 5%	21.2	19.7			
5 - 7%	25.5	16.0			
7 - 10%	23.0	20.4			
10 - 15%	11.1	10.4			
> 15%	6.7	12.3			
Cash	1.9	0.0			

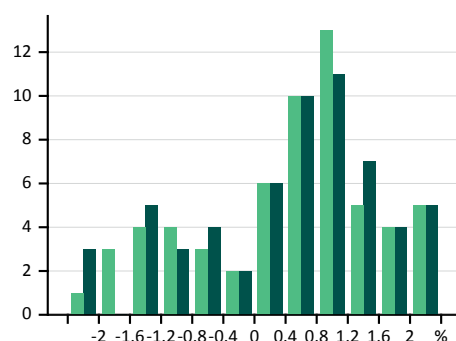
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Reference Currency EUR | Observation Period - 5 years

— Fund — Index

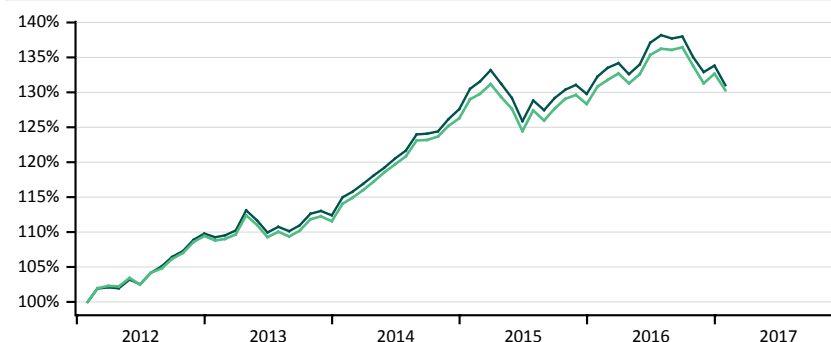
DISTRIBUTION OF MONTHLY RETURNS



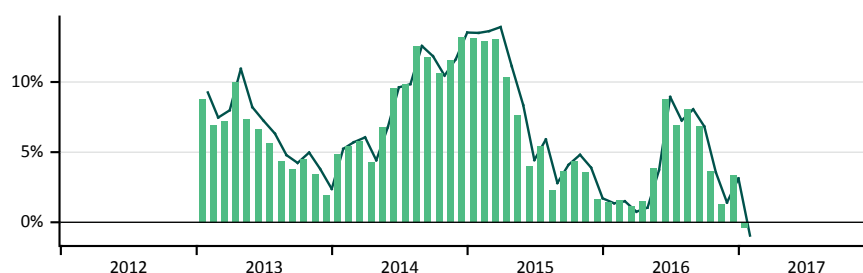
STATISTICS

		Fund	Index
Volatility	%	4.15	4.27
Sharpe Ratio		1.29	1.28
Downside Deviation	%	2.45	2.52
Sortino Ratio		2.18	2.17
Positive Months	%	71.67	71.67
Maximum Drawdown	%	-5.13	-5.49
Risk-Free Rate 0.06%			

CUMULATIVE PERFORMANCE



12-MONTH ROLLING RETURNS

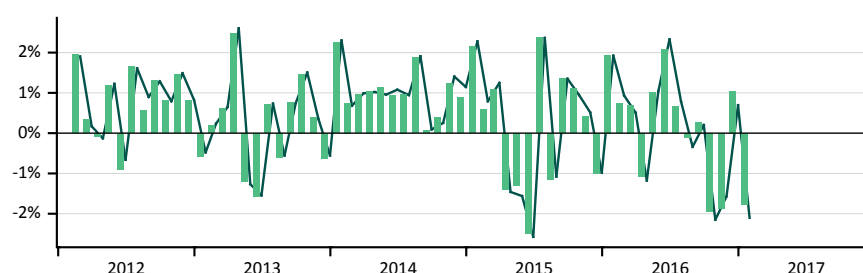


FUND VERSUS INDEX

Correlation		0.993
R ²		0.987
Alpha	%	0.01
Beta		0.966
Treynor Ratio	%	5.54
Tracking Error	%	0.50
Information Ratio		-0.234

Index: JPM EMU Government Bond Total Return

MONTHLY RETURNS



MONTHLY RETURNS IN %

	2013		2014		2015		2016		2017	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index	Fund	Index
January	-0.59	-0.48	2.25	2.30	2.15	2.28	1.94	1.92	-1.78	-2.10
February	0.19	0.24	0.75	0.68	0.59	0.79	0.73	0.93		
March	0.61	0.65	0.96	0.99	1.08	1.25	0.70	0.51		
April	2.48	2.60	1.05	1.02	-1.41	-1.46	-1.07	-1.18		
May	-1.21	-1.27	1.14	0.96	-1.31	-1.56	1.01	1.04		
June	-1.59	-1.55	0.94	1.08	-2.50	-2.57	2.07	2.33		
July	0.71	0.73	0.97	0.94	2.38	2.36	0.66	0.78		
August	-0.62	-0.56	1.87	1.91	-1.14	-1.08	-0.12	-0.34		
September	0.77	0.75	0.07	0.09	1.36	1.35	0.27	0.20		
October	1.47	1.51	0.39	0.25	1.10	0.95	-1.96	-2.15		
November	0.39	0.35	1.23	1.40	0.43	0.51	-1.86	-1.57		
December	-0.63	-0.55	0.88	1.15	-1.00	-0.98	1.05	0.70		
Year	1.92	2.38	13.22	13.53	1.61	1.71	3.38	3.13	-1.78	-2.10

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