

DPAM L BONDS EUR HIGH YIELD SHORT TERM - A

Monthly Institutional Factsheet | January 31, 2017

MANAGER COMMENT

Market comment

Despite many markets participants' expectations of higher volatility as a new US President was sworn in on January 20, the high yield market stuck to the relatively smooth upward trend initiated a month earlier. The Barclays Euro High Yield, 3%-capped, ex-financials, Index gained 69 basis points (bp) in January, building on the strong December performance, albeit at a slower pace. Spreads tightened by 26 bp, which left the yield-to-worst of the Index at 3.69%.

The interest rate backdrop was less benign, though, with 10-year bund yields jumping by almost 30 bp over the month. Peripheral spreads also climbed in January, with in particular Italy trading at its highest spread in 12 months vs. Germany. France is also seemingly losing some of its appeal to investors due to the upcoming elections.

So far, the high yield market has been quite well sheltered from the spike in rates given its low duration (roughly four years for the benchmark) and still has a relatively healthy carry. Most of the positive performance was achieved during the first couple of weeks of the month. After that, the market was somewhat stuck. The lower quality part of the credit spectrum outperformed significantly.

Top performing sectors were supermarkets and pharmaceuticals, whereas the gaming sector was somewhat under pressure.

The primary market was open, with EUR5.4 billion deals priced over the month. Performance in the aftermarket was not always positive, with for instance Talk Talk Telecom (new issue in GBP) and Sixt Leasing underperforming the broader market and trading below their issue price. Having an internal analysis capability remains paramount in the high yield market to separate the chaff from the wheat.

Companies' fundamentals remain on the right track as well. According to a recent Morgan Stanley study, net leverage is down 0.3 times, mainly thanks to growing cash balances.

Performance

The fund (F share) gained 0.15% in January. Contributors to performance were Anglo American and Fiat. The latter was under pressure in the first half of the month, as the US Environmental Protection Agency (EPA) alleged that automaker had violated the Clean Air Act. The bonds recovered quickly however after a very strong 2016 earnings announcement and pledges by the new US President that he would significantly reduce the EPA's scope and authority. Hertz and Smurfit Kappa were more of a drag on performance during the month.

Last month's strategy

The fund continued to invest in names with good visibility in terms of liquidity and cash flows. Fresh inflows were mainly invested in the larger and more liquid names over the month.

Outlook & strategy going forward

Valuation-wise, the European high yield market is not inexpensive: spreads totalled 337 bp and its yield-to-worst reached an all-time low of 3.69% at the end of January 2017. Where do we go from here?

Our default expectations remains at around 2% for 2017. The number of bonds priced at below 80% is hovering around 3% in the benchmark, indicating that stress in the market is relatively limited. Current spreads imply a 5-year cumulative default rate of 23.9%, more than sufficiently covering the current default projections but, not any unexpected spike.

The primary market is open, but is mainly used for refinancing. The upcoming maturity wall for 2017 is relatively limited at roughly EUR12 billion, but if one includes the bonds that trade to call, the potential refinancing pipeline jumps to EUR53 billion. Indeed, many companies are using low interest rates to refinance existing bonds when they approach their call dates.

Furthermore, issuers are increasingly looking at the (leveraged) loan market to refinance existing bonds and/or credit lines given the flexibility of the product. We saw issuers like Xella and also Ineos calling bonds and refinancing them in the loan market.

On the demand side, investors are still starved for yield and despite the recent rise in government bond yields, inflows in the high yield market remain healthy. And coupons need to be reinvested as well.

All in all, we believe that the technical supply/demand picture looks quite supportive for European high yield for the foreseeable future.

The most obvious threats for the time being continue to be the uncertainty with regard to US politics, the recent widening in peripheral spreads and a potential contagion effect from idiosyncratic situations like Agrokor.

With default rates remaining low, companies finding easy and cheap financing and the macro-economic environment also supportive in Europe, we are still maintaining a positive bias towards the European high yield market. Yet, the return potential has obviously diminished after the recent rally.

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OVERVIEW

Asset Class	Bonds
Category	High-Yield
Strategy	Active Strategy
Fund Of	DPAM L
Legal Structure	SICAV
Domicile	Luxembourg
Reference Currency	EUR
Liquidity	Daily
Sub-fund launch	30.06.2010
First NAV date	30.06.2010
Countries notified for public sale	AT, BE, CH, DE, ES, FR, IT, LU, NL
ISIN	LU0517221833
Entry Fee	Maximum 2 %
Exit Fee	0.00%
Management Fee	0.60%
TER (31.12.2016)	0.99%
Minimum investment	0.001 share
NAV (Distribution)	113.77
Last gross dividend (18.04.2016)	EUR 3.00
Assets (all classes)	mn EUR 666.92
Number of positions	74

PERFORMANCES (%)

1 month	0.12
YTD	0.12
1 year	5.59
3 years annualised	2.83
5 years annualised	4.28
10 years annualised	-

PORTFOLIO CHARACTERISTICS

Maturity (Years)	1.60
Duration (Years)	1.60
Modified Duration (%)	1.59
Yield to Worst (%)	0.12
YTW (ModDur Weighted) (%)	0.92
Number of Issuers	54

INVESTMENT UNIVERSE

The fund mainly invests (without any sectorial or geographical restriction) in bonds and/or other debt securities (including structured products), fixed or floating, denominated in euro (or if denominated in another currency, with a currency risk which is minimum 90% hedged), with a high yield and a residual maturity, upon subscription, of less than 4 years.

BREAKDOWNS (%)

Sectors		Credit Ratings (Scale S&P)	
Industrials	37.4	BBB	2.6
Consumer Cyclical	19.6	BB	63.6
Communication	18.2	B	24.6
Consumer Non-Cyclicals	17.3	C-Category	0.7
Gov. & Gov Related	2.3	Not Rated	7.8
Utilities	1.9	Other	0.0
Financials	1.6	Cash	0.7
Energy	0.9		
Technology	0.2		
Other	0.0		
Cash	0.7		

Modified Durations

		Countries	
< 3%	90.8	United Kingdom	17.8
3 - 5%	8.5	France	16.0
Other	0.0	Italy	16.0
Cash	0.7	Germany	11.1
		Luxembourg	7.8
		Greece	6.0
		Netherlands	3.8
		Belgium	3.8
		Ireland	3.8
		Japan	3.4
		Brazil	3.3
		Other	6.6
		Cash	0.7

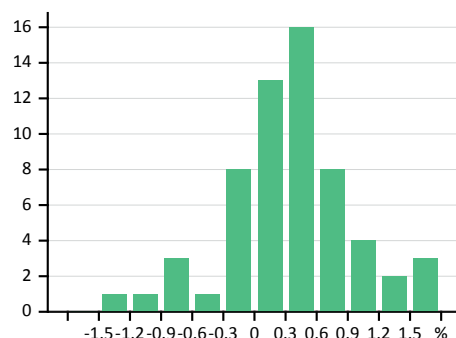
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Reference Currency EUR | Observation Period - 5 years

Fund

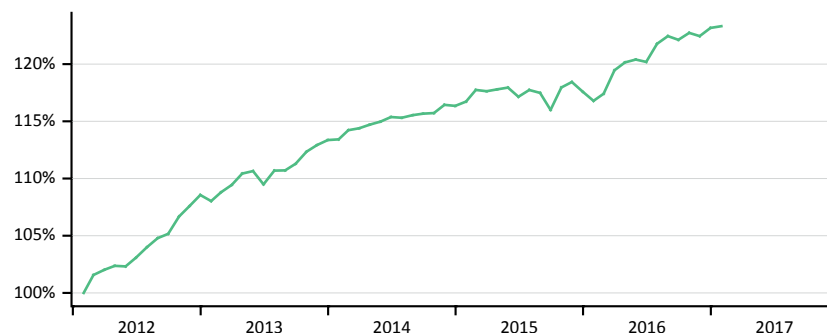
DISTRIBUTION OF MONTHLY RETURNS



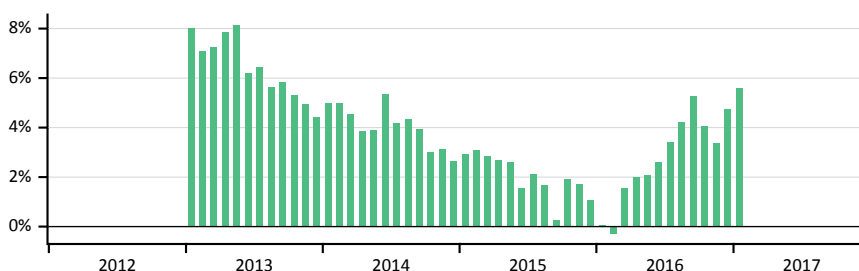
STATISTICS

Volatility	%	2.11
Sharpe Ratio		1.99
Downside Deviation	%	0.97
Sortino Ratio		4.35
Positive Months	%	76.67
Maximum Drawdown	%	-1.66
Risk-Free Rate 0.06%		

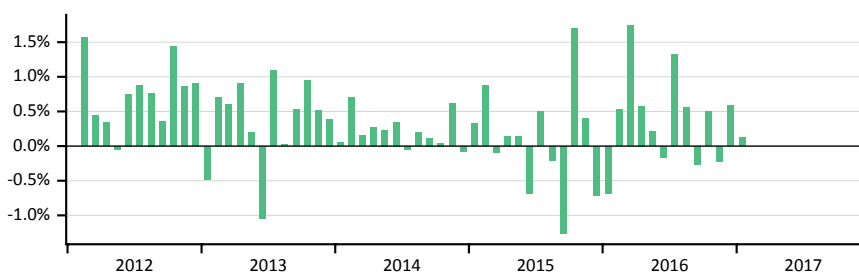
CUMULATIVE PERFORMANCE



12-MONTH ROLLING RETURNS



MONTHLY RETURNS



MONTHLY RETURNS IN %

	2013	2014	2015	2016	2017
	Fund	Fund	Fund	Fund	Fund
January	-0.49	0.05	0.33	-0.68	0.12
February	0.70	0.71	0.87	0.53	
March	0.60	0.15	-0.10	1.74	
April	0.91	0.27	0.14	0.58	
May	0.20	0.23	0.13	0.21	
June	-1.05	0.35	-0.68	-0.17	
July	1.10	-0.05	0.50	1.32	
August	0.02	0.20	-0.22	0.55	
September	0.52	0.12	-1.27	-0.27	
October	0.94	0.04	1.69	0.50	
November	0.52	0.62	0.40	-0.23	
December	0.39	-0.08	-0.71	0.58	
Year	4.43	2.63	1.07	4.74	0.12

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