Kempen (Lux) Euro Credit Fund I

LU0630255346

Factsheet
April 2020

Market developments per 2020-04-30

In April, the spread on the iBoxx Euro Corporate Index tightened by 59 basis points to 193 basis points above the government bond curve. The index earned an absolute return of +3.72%. German 10-year government bond yields closed April at -0.59%, a decrease of 12 basis points compared to the end of March.

Investor sentiment improved greatly during the month, primarily as a result of two main developments. Firstly, despite the number of people infected with the COVID-19 virus surpassing the 3 million mark globally, investors took comfort from the fact that in most developed countries, the rate of new infections has materially slowed. In some European countries, such as Denmark, Austria and Switzerland, “lock-downs” are gradually being loosened, with a limited number of economic activities (e.g. primary education, retail) tentatively being allowed to restart. With the Chinese economy now being viewed as a potential template for how western economies can gradually return to normality, investors are speculating that as this year progresses, more and more parts of the economy will be allowed to resume functioning. Furthermore, news reports suggesting two existing medicines could significantly reduce the lethality of the virus (Gilead’s remdesivir and Roche’s actemra) raised investors’ hopes that the worst of the pandemic outbreak, from a healthcare system perspective, could soon be behind us.

Secondly, investors are increasingly confident that governmental policymakers will not hesitate in applying ever more fiscal and monetary stimulus to prevent the global economy from collapsing and an accompanying sharp spike in bankruptcies amongst corporations and individuals from taking place. During April, for example, the US Federal Reserve increased the size of its corporate bond buying program to USD 750 billion, whilst also broadening eligibility criteria to include fallen angels (in this case companies that have been downgraded since the 22nd of March) and high-yield exchange-traded funds (ETFs). On the fiscal stimulus front, after having seen an initial USD 349 billion small business aid program fully utilized in a matter of days, the US Treasury and US Congress quickly reached an agreement to launch a second fiscal stimulus program now totaling USD 484 billion. Of this amount, more than USD 300 billion will be used to replenish the small business aid program. In Europe, the ECB has broadened the type of collateral it will accept from banks to now include non-investment grade bonds, in particular those bonds issued by the so-called “fallen angels” that were previously investment grade rated. Furthermore, at the end of the month, the ECB lowered the interest rate on its targeted longer-term refinancing operations (TLTRO) program to 50 basis points below the rate at which banks can stall excess liquidity at the bank, thereby greatly supporting the liquidity of the European banking system and its ability to purchase sovereign bonds in a profitable manner.

Whilst responding favorably to the above-mentioned developments, credit markets are shrugging off extremely weak underlying macroeconomic data. The latter highlight the severe damage that is being afflicted on the global economy as a result of the ongoing “lock-downs” throughout Europe and large parts of the United States. For instance, in France, the Manufacturing and Services PMIs declined to 31.5 and 10.4, respectively. In the US, PMI figures were not much better with Manufacturing and Services coming in at 36.9 and 27.0, respectively. Unemployment in the United States is rising rapidly, with the number of Americans filing for unemployment benefits having increased to 30.3 million individuals since Covid-19 broke out in the country.

The impact of the COVID-19 pandemic on Q1 earnings was rather limited, given that companies were largely operating in a normal manner during the months of January and February. That being said, management teams are warning that Q2 results will be significantly worse. This is particularly true for those companies whose products or services are not deemed to be “essential” by governmental authorities (e.g. aviation, travel & leisure) or that are highly dependent on consumer and business confidence (e.g. automotive, industrial goods & services). In response to the deteriorating economic outlook, many companies continue to announce substantial cuts to their workforce and to their capital expenditure programs. From a credit cycle perspective, management teams have clearly begun to prioritize liquidity and their company’s balance sheets over near-term shareholder interests. Share buyback programs and dividends are frequently being cancelled or at least reduced, whilst there has also been a notable increase in the number of companies issuing fresh equity.

During the month, subordinated bonds issued by insurance companies and banks, as well as bonds issued by companies in the Automotive and Basic Resources sectors outperformed. By contrast, bonds issued by companies operating in the Real Estate, Media, Oil & Gas and Industrial Goods & Services sectors underperformed.
The supply of new bonds was EUR 81 billion in April, representing a 35% increase compared to March and a more than doubling compared to the year-earlier period. Non-financial sector companies issued EUR 58 billion in new bonds last month, while financial sector companies issued EUR 23 billion in new bonds. During the first four months of the year, a total of EUR 243 billion of bonds were issued. This represents a 29% increase compared to the year-earlier period.

Portfolio developments per 2020-04-30

During the month the portfolio’s sensitivity to market trends varied between 97% and 102%. The portfolio therefore held a relatively neutral positioning in terms of market risk.

Our positioning in the telecom, real estate and food & beverage sectors performed relatively well in April. In contrast, our positioning in the healthcare, technology and banks sectors contributed negatively. Our liquidity position (in the form of cash and government bonds) had a negative impact.

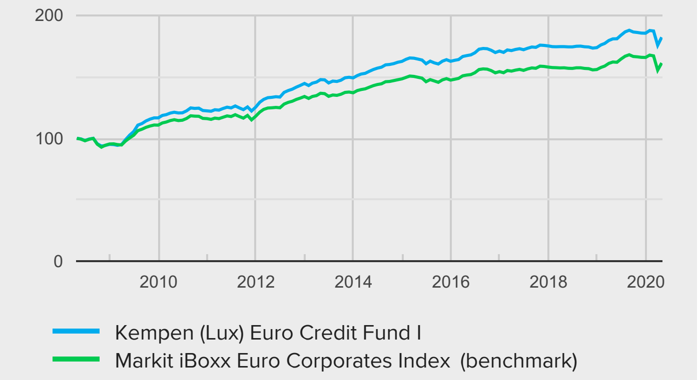
At individual company level, positive contributions came from the overweights in AB Inbev, Unilever, General Electric, Glencore and Verizon Communications, as well as from our underweights in Unibail-Rodamco and ENI. In contrast, the overweights in TVO, Bank of America, GlaxoSmithKline, Groupe Bruxelles Lambert and Huntsman Corporation, as well as from our underweights in Banco Santander and Daimler contributed negatively.

In April, the Fund participated in new bond issues from Schiphol Airport, Total, Lloyds Bank Corporate Markets, Naturgy, Svenska Handelsbanken, Veolia Environnement, Cap Gemini, SSE, JAB Holdings, Honda, Lonza, Givaudan, BPCE, Elia, Firmenich Productions, Wells Fargo, Holding d'Infrastructures de Transport (HIT), Credit Mutuel Arkea, Banco Santander, Pepsi, Signify and UBS.

Outlook

Given our concerns about the negative effect that the sharp economic downturn will have on corporate profitability, we intend to retain a defensive positioning in our portfolio with a focus on quality. We expect our portfolio to, therefore, be well protected in the event the impact of the corona virus on the economy grows in severity. Having said this, we will be vigilant in looking out for relative value opportunities that arise as a result of the increased market volatility, including participating in new bond issues that are priced with substantial premiums. For the moment we refrain from adopting a significant underweight positioning, primarily given the ECB's large-scale corporate bond buying program.

Performance since inception per 2020-04-30 (rebased)



Dividends

Distributing	No

Share class details

Share class	I
Investor type	Institutional
Distributing	No
Benchmark	Markit iBoxx Euro Corporates Index
Duration hedged	No
Investment category	Credits
Universum	Credits denominated in euro
Inception date	2011-07-01
Domicile	Luxembourg
May be offered to professional investors only in	Belgium, Finland, France, Germany, Italy, Luxembourg, Spain, Sweden, Switzerland, The Netherlands, United Kingdom
UCITS status	Yes
Status	Open-end
Base currency	EUR
Share class currency	EUR
Management company	Kempen Capital Management N.V.
Depositary and custodian	J.P. Morgan Bank Luxembourg S.A.
Morningstar rating ™	★★★★★
Morningstar Analyst rating	Gold

Ongoing charges

Management fee	0.32 %	
Service fee	0.10 %	
Taxe d'abonnement	0.01 %	+
Expected ongoing charges	**0,43 %**	

Other costs

Downward swing factor	0.35 %

Performance per 2020-04-30

	Fund	Benchmark
1 month	3.7 %	3.7 %
3 months	-2.9 %	-3.8 %
This year	-1.7 %	-2.7 %
2017	2.4 %	2.4 %
2018	-0.8 %	-1.3 %
2019	6.7 %	6.3 %
1 year (on annual basis)	0.7 %	-0.5 %
3 years (on annual basis)	1.9 %	1.2 %
5 years (on annual basis)	2.1 %	1.5 %
Since inception (on annual basis)	5.1 %	4.1 %

On 20 June 2013, Kempen Euro Credit Fund (KECF) was merged with Kempen (Lux) Euro Credit Fund (the Fund). Up to July 2011 (start of the Fund class I) the performance graph and performance table show the performance of KECF. The average annual TER for the period of April 2008 till June 2013 is 0.92%. Performance is shown after deduction of ongoing charges. The value of your investments may fluctuate. Past performance provides no guarantee for the future.

Management team

Alain van der Heijden, Rik den Hartog, Harold van Acht, Sipke Moes, Luuk Cummins, Pim van Mourik Broekman, Quirijn Landman, Marco Zanotto

More information about the team and the strategy

Key figures

Total fund size	EUR 1,859.08 M	2020-04-30
Share class size	EUR 1,227.40 M	2020-04-30
Number of shares	840,630	2020-04-30
Net Asset Value	EUR 1,460.10	2020-04-30

The turnover rate figure is per the end of the financial year of the fund and will be updated once a year.

Profile

Kempen International Funds SICAV - Kempen (Lux) Euro Credit Fund (the Fund) invests primarily in credits that have an investment grade rating (of minimal BBB-) and are denominated in Euros. The Fund may invest a small part in credits that are not included in the benchmark. The benchmark, the Markit iBoxx Euro Corporates Index, only includes bonds with an investment grade rating.

The Fund aims to earn a higher total long term return than the benchmark by implementing an active investment policy. In order to achieve this, a diversified portfolio is constructed and investment risks are continuously monitored. Investments are selected on the basis of extensive analysis of the terms and conditions of the bond issues.

In the interest of the shareholders it has been decided to soft open the Fund as per 28 June 2018. As per June 2018 the Fund will continue to accept daily inflow below EUR 10 million from all investors. For investments greater than EUR 10 million please contact the Fund's relationship manager. Redemptions will still be possible. More information about the soft open can be found in the Notice to shareholders in the tab Documents.

Fund characteristics per 2020-04-30

	Fund	Benchmark
Number of holdings	311	2882
Duration	5.4	5.1
Yield to maturity	1.2 %	1.3 %
Weighted rating	A-	A-

Tradability

Minimum subscription	Initial subscription: €50,000, additional subscriptions: €10,000
Listed	no
Subscription/Redemption Frequency	Daily
ISIN	LU0630255346

Portfolio

Maturity profile (2020-04-30)

	Fund		Benchmark
	23.9 %	3-5 year	26.7 %
	22.9 %	5-7 year	20.8 %
	21.4 %	0-3 year	27.3 %
	18.8 %	7-10 year	16.3 %
	11.4 %	> 10 year	9.0 %
	0.8 %	Cash	0.0 %
	1.1 %	Other	0.0 %
Total	**100 %**		**100 %**

Rating allocation (2020-04-30)

	Fund		Benchmark
	1.8 %	AAA	0.4 %
	2.7 %	AA	10.5 %
	39.5 %	A	41.3 %
	50.0 %	BBB	47.8 %
	2.7 %	BB	0.0 %
	2.5 %	Not Rated	0.0 %
	0.8 %	Cash	0.0 %
Total	**100 %**		**100 %**

The rating allocation of the Fund is based on the Bloomberg Composite method. The rating allocation of the benchmark is based on the rating allocation used by provider Markit iBoxx.

Sector allocation (2020-04-30)

	29.7 %	Banks
	14.8 %	Consumer Goods & Services
	10.5 %	Utilities
	9.4 %	Telecom & Technology
	7.4 %	Health Care
	7.2 %	Industry
	7.1 %	Financial Services & Real estate
	4.3 %	Insurance
	3.0 %	Energy
	2.7 %	Other
	1.9 %	Basic Materials
	1.8 %	Sovereign bonds
	0.4 %	Asset Backed Securities
Total	**100 %**	

The cash position is included in ‘Other’.

Top 10 holdings (2020-04-30)

	1.2 %	2.875% Anheuser-Busch 2020-32
	1.1 %	JPMorgan EUR Liquidity LVNAV Fund C
	0.9 %	0.000% KFW 2017-22
	0.9 %	0.500% Duitsland 2016-26
	0.8 %	0.000% Enel 2019-24
	0.8 %	0.625% BPCE 2018-23
	0.8 %	1.500% FIS 2019-27
	0.8 %	0.500% Banque Fed Cred Mutuel 2018-22
	0.7 %	0.250% La Banque Postale 2019-26
	0.7 %	1.125% Orange 2019-24
Total	**8.6 %**	

Kempen (Lux) Euro Credit Fund (the “Sub-Fund”) is a sub-fund of Kempen International Funds SICAV (the “Fund”), domiciled in Luxembourg. This Fund is authorised in Luxembourg and is regulated by the Commission de Surveillance du Secteur Financier. Kempen Capital Management N.V. (KCM) is the management company of the Fund. KCM is authorised as management company and regulated by the Dutch Authority for the Financial Markets (AFM).

Paying agent and representative in Switzerland is RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich. The Sub-Fund is registered with the Dutch Authority for the Financial Markets (AFM) under the license of the Fund.

The information in this document provides insufficient information for an investment decision. Please read the Key Investor Document (available in Dutch, English and several other languages, see website) and the prospectus (available in English). These documents as well as annual report, semi-annual report and the articles of incorporation of the Fund are available free of charge at the registered office of the Fund located at 6H, route de Trèves, L-2633 Senningerberg, Luxembourg, at the offices of the representative in Switzerland and on the website of KCM (www.kempen.com/en/asset-management). The information on the website is (partly) available in Dutch and English.

The Sub-Fund is registered for offering in a limited number of countries. The countries where the Sub-Fund is registered can be found on the website. The value of your investment may fluctuate. Past performance provides no guarantee for the future. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units.