

DPAM L Bonds Universalis Unconstrained - F

Institutional Factsheet | 31 August 2019

Morningstar ★★★★★ (*)

MANAGER COMMENT

Market Overview

August vindicated many of the calls we had made for the unconstrained fund over the past months. Increasing our USD exposure and sticking to a basket of low risk investments across US Treasuries, the EMU periphery (Spain + Portugal) and a selection of investment grade (IG) credit. On the defensive side, our decision to dilute our local currency emerging market (EM) bond exposure and rotation into long duration inflation-linked government bonds led to a steady risk-adjusted performance. What's next ?

We believe that another round of monetary stimulus along with fiscal promises might slow the fall in core German and US rate markets. The global growth slowdown over the next 12 months is fully priced in by rate markets. Here is our base case. The Fed lowers rates to 1.00% in the first half of 2020. US yield curve momentum rolls over from bull-flattening towards shallow bull-steepening. The US IG bull market slows by a couple of gears. We maintain our portfolio construction: US non-financial IG corporates at the short end and senior US bank exposure at the long end of their respective credit curves. Over August, we decided to tilt our 15% US Treasury allocation firmly in favor of linkers: 2/3 go to linkers, 1/3 to nominal Treasuries. US macro- and micro-economic data point to a stagflation episode. We expect realized inflation to beat market-based inflation expectations.

We bet on the same theme in EMU government bond markets, but for slightly different reasons. Finding a marginal buyer of government bonds with increasingly negative yields will become harder as time goes by. However, we expect that strong ECB forward guidance might extend the duration of the negative rates episode. In our view, a second round of quantitative easing might lead to portfolio rotation activity. The rotation we expect is in favor of European real government rates. Compared to UK and Swedish real rates, we see value in German, French and Spanish linkers. Overall, we allocate 16% to EMU government bonds, of which about 80% is invested in linkers. Portfolio construction and risk management truly go hand in hand here.

Not only do we seek to build a resilient portfolio, but we also seek exposure to currencies and bonds that benefit from market stress. Our combined allocation to USD, CHF and JPY sits at around 33%. We might add CAD (2.4% of AuM) and SEK (2.78%), as the Canadian and Swedish sovereign markets are among the safest. Finally, we decided to be contrarian on two levels. We increased GBP exposure to 2.4% by adding 10-year gilts and initiated a short Italian government bond (BTP) futures position. The bund-BTP at the 10-year futures point hit the 150 basis points (bp) spread target. Even with a new government in place, we believe that Italian debt and macro-economic challenges require a risk premium above current levels. Thus, our investors not only avoid Italian government bond exposure, but effectively get higher protection on a key but fragile market at the core of Europe.

Performance

The fund (F share) rose 1.82%, gaining 14.66% year-to-date.

What worked?

- Performance contribution was balanced across nominal government, low-beta corporate, real rate (inflation-linked bonds) and financial bonds which added 74 bp, 38 bp, 34 bp and 26 bp respectively.

What hurt?

- Short 10-year BTP and 10-year bund futures positions detracted 23 bp and 12 bp respectively.

Strategy & Outlook

Our Yield-to-Worst (YtW) dropped to 1.09%, excluding inflation break-even rates. Including the break-even rates component at 31 bp puts our YtW at 1.40%. End of August, we run a measured monthly Value at Risk (VaR) budget of 2.04%. Curve and duration risk were stable at 101 bp, with currency VaR dropping from 97 bp to 87 bp as a result of reduced EM exposure. USD exposure contributes 62 bp to the currency VaR. Credit risk inched up to 17 bp, as we increased our senior bank exposure in USD (Bank of America). We refrain from credit risk hedging amid a lack of signals of broad-based credit stress. As EMU government and short to intermediate IG credit markets are awash with negative-yielding paper, specific longer-maturity IG corporate bonds provide value.

Overall, portfolio duration is maintained at around 7.68%, reflecting the 'low for longer' stance of developed market central banks. For the rest of 2019, we foresee 4 axes of performance: high conviction low risk IG credit selection, exposure to core EMU and US real rates, modest EM allocation and exposure to the USD/CHF/JPY. We reiterate our thesis and targets for a stronger USD, a conviction we have held for a long time and stated already in past comments.

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OVERVIEW

Asset Class	Fixed Income
Category	Aggregate
Strategy	Active Strategy
Fund Of	DPAM L
Legal Structure	SICAV
Domicile	Luxembourg
Reference Currency	EUR
Liquidity	Daily
Sub-fund launch	11.12.2001
First NAV date	30.01.2004
Countries notified for public sale	AT, CH, DE, ES, FR, IT, LU, NL
ISIN	LU0174544550
Telekurs	001654694
WKN	A0PDR3
Entry Fee	Maximum 1%
Exit Fee	0%
Ongoing charges*	0.57%
<i>*included management fee</i>	<i>0.40%</i>
Minimum investment	EUR 25'000
NAV (Capitalisation)	185.40
Assets (all classes)	mn EUR 931.16
Number of positions	123

PERFORMANCES (%)

1 month	1.82
YTD	14.66
1 year	15.82
3 years annualised	4.29
5 years annualised	4.97
10 years annualised	6.35

PORTFOLIO CHARACTERISTICS

Maturity (Years)	10.93
Duration (Years)	7.76
Modified Duration (%)	7.68
Yield to Worst (%)	1.15
YTW (ModDur Weighted) (%)	1.09
Number of Issuers	74

INVESTMENT UNIVERSE

The fund mainly invests (without any sectorial restriction) in bonds and/or other debt securities (including perpetual notes and/or structured products), fixed or floating, denominated in any currency and issued by (public and/or private) worldwide issuers. The majority of these securities or, otherwise, the issuers thereof must have a minimum rating of BBB-/Baa3 ('investment grade') on the scale of S&P/Moody's rating agencies.

BREAKDOWNS (%)

Sectors		Credit Ratings (Scale S&P)	
Gov. & Gov Related	50.2	AAA	28.0
Financials	22.2	AA+	1.1
Communication	8.5	AA	7.1
Technology	5.5	AA-	1.0
Utilities	3.6	A+	5.3
Industrials	3.3	A	9.3
Consumer Cyclical	2.4	A-	10.2
Consumer Non-Cyclical	2.1	BBB+	20.9
Energy	0.5	BBB	3.8
Other	0.0	BBB-	5.8
Cash	1.6	High-Yield	5.0
		Not Rated	0.8
		Other	0.0
		Cash	1.6

Strategies

Low Beta Corporate	25.4
Inflation Linked	25.3
Nominal Government	23.1
Financials	21.2
High Beta Corporate	1.6
Emerging Corp. Investment Grade	0.9
Convertibles	0.8
Hedges Rates	0.0
Cash	1.6

Capital Structure

Gov. & Gov. Related	50.2
Non-Financials Senior	22.7
Banks Senior	12.9
Non-Financials Subordinated	3.3
Banks Subordinated	3.1
Insurance Subordinated	2.9
Banks Lower Tier Two	2.5
Insurance Senior	0.5
Financial Services Senior	0.3
Other	0.0
Cash	1.6

Currencies after hedging

Euro	50.1
US Dollar	30.8
Other	7.3
Swedish krona	2.8
Canadian dollar	2.4
Pound sterling	2.4
Australian dollar	2.1
South African rand	2.0

Modified Durations

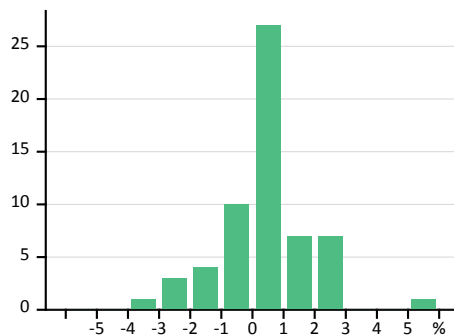
< 3%	9.0
3 - 5%	23.7
5 - 7%	13.9
7 - 10%	18.7
10 - 15%	19.6
> 15%	13.4
Other	0.0
Cash	1.6

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Reference Currency EUR | Observation Period - 5 years

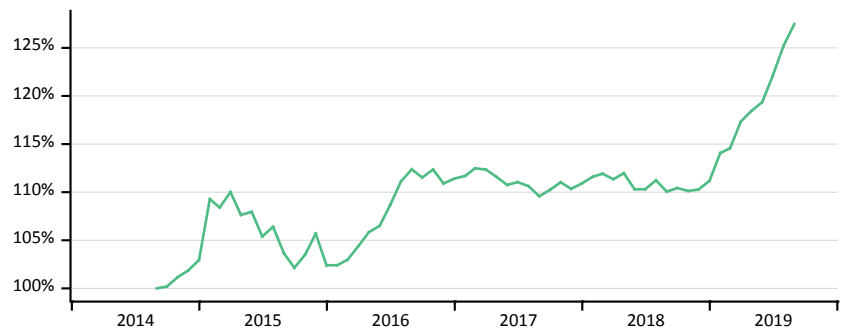
DISTRIBUTION OF MONTHLY RETURNS



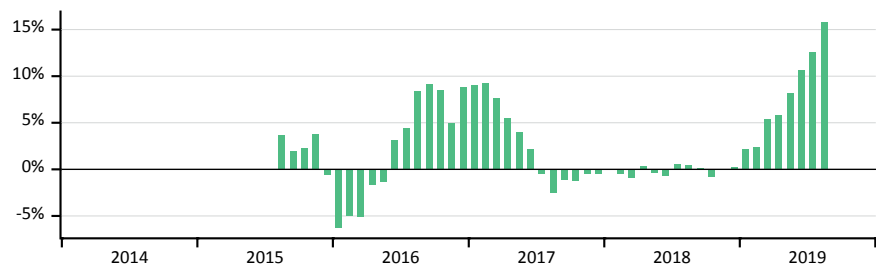
STATISTICS

Volatility	%	5.08
Sharpe Ratio		1.03
Downside Deviation	%	2.72
Sortino Ratio		1.93
Positive Months	%	70.00
Maximum Drawdown	%	-7.16
Risk-Free Rate		-0.30%

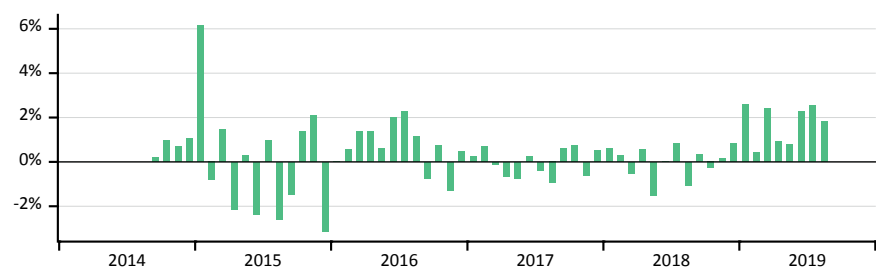
CUMULATIVE PERFORMANCE



12-MONTH ROLLING RETURNS



MONTHLY RETURNS



MONTHLY RETURNS IN %

	2015	2016	2017	2018	2019
	Fund	Fund	Fund	Fund	Fund
January	6.16	0.02	0.26	0.63	2.60
February	-0.82	0.55	0.70	0.28	0.44
March	1.48	1.37	-0.10	-0.51	2.43
April	-2.16	1.38	-0.67	0.56	0.93
May	0.29	0.63	-0.76	-1.50	0.77
June	-2.38	2.02	0.26	0.01	2.29
July	0.96	2.27	-0.37	0.84	2.55
August	-2.59	1.13	-0.95	-1.05	1.82
September	-1.45	-0.75	0.60	0.34	
October	1.35	0.75	0.72	-0.27	
November	2.11	-1.29	-0.61	0.14	
December	-3.13	0.45	0.51	0.82	
Year	-0.54	8.80	-0.44	0.24	14.66

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