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ASG Perspectives for the 2nd half of 2018

The Fixed Income world has been turbulent since the beginning of 2018. Not surprisingly in the light of US and European Central Bank action, as they implement their previously announced monetary policy changes. During their maneuvers, they have significantly unsettled debt markets in their wake. Price volatility for bonds has increased. As a consequence, the valuation of assets already in the portfolio have suffered, but less than the Asset Class as a whole. On the other side of this volatility coin, the acquisition prices of debt instruments on our radar have been reduced substantially relative to their levels just a few months before.

The subordinated debt market is a very small part of the Fixed Income world. Generally, it is better to stay invested on the bonds of quality institutions as these are always difficult to source regardless of market conditions.

To forestall the uncertain moments mentioned above, ASG has been overweight on short maturity bonds since July 2017, with a double objective in mind: accumulate carried interest and build a reinvestment option for the short term. Since the beginning of 2018, **23%** of the bonds in the portfolio have matured, as expected. The proceeds have been reinvested on other short dated instruments. This reinvestment process has been carried out on new investments yielding **5% to 7%** (when the same assets were only yielding **3% to 4% five months ago**). As of today, a further **15%** of bonds are expected to mature before the end of this year. And **20%** more in 2019.

This reinvestment process is currently in 'full swing'. So far, it has enabled ASG to raise the gross average yield of the fund from **4.2% at the end of December 2017** to **5% today** with a projected level of **5.5% for the end of the year**, while maintaining the modified duration at around 2 years and an average Rating at 'Investment Grade' **BBB.**

To conclude, current market conditions coupled with the embedded reinvestment option in the portfolio have raised the performance potential of the fund significantly.

ASG Perspectives for the 2nd half of the year 2018:

1. Current yield levels on subordinated debt of large multinationals and household corporations have jumped up to levels that are exceptional in the Fixed Income world. As world investors desperately seek yield generating investment solutions, the demand for these instruments is still very prevalent today.
2. Our reinvestment process is underway since the beginning of the year (between January 2018 and December 2019, 55% of the assets of the fund would have or are expected to mature). This should continue to add to the performance potential of the fund moving forward.
3. Monetary policy has yet to stabilize. Bond price volatility could therefore continue. In the near future, the impact should be contained as the portfolio's allocation remains overweight on short dated instruments. On the other hand, this continuing volatility represents a clear investment opportunity for the benefit of the fund, based on its current positioning.