Kempen

Kempen (Lux) Euro Credit Fund BN

LU0927664382

Overview

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.

MANAGEMENT TEAM

Alain van der Heijden, Joost de Graaf, Bart aan den Toorn, Harold van Acht, Lizelle du Plessis, Kim Lubbers, Tetiana Kharlamova, Arif Bagasrawalla

More information about the team and the strategy

KEY FIGURES

Total fund size	EUR 842.81 M	2022-05-31
Share class size	EUR 86.70 M	2022-05-31
Number of shares	3,486,180	2022-05-31
Net Asset Value	EUR 24.87	2022-05-31

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

TOP 10 HOLDINGS

0.050% Sparebank 1 Boligkredit 2021-28	1.5 %
3.375% Volkswagen 2020-28	1.3 %
1.125% European Union 2016-36	1.1 %
0.750% RCI Banque 2019-23	1.0 %
0.010% Banque Fed Cred Mutuel 2021-26	0.8 %
0.375% Enel 2019-27	0.8 %
1.000% Cheung Kong Infra 2017-24	0.8 %
0.000% Novartis 2020-28	0.8 %
0.625% KFW 2017-27	0.8 %
2.500% Danaher 2020-30	0.8 %

SHARE CLASS DETAILS

Share class	BN
Investor type	Private
Distributing	Yes
Benchmark	Markit iBoxx Euro Corporates Index
Duration hedged	No
Investment category	Credits
Universum	Credits denominated in euro
Inception date	2013-10-08
Domicile	Luxembourg
May be offered to all investors in	Belgium, Luxembourg, 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	BNP Paribas Securities Services S.C.A., Luxembourg branch
Morningstar rating ™	★★★★★
Morningstar Analyst rating	null

TRADABILITY

Minimum subscription	Initial subscription €1
Listed	no
Subscription/Redemption Frequency	Daily
ISIN	LU0927664382

FUND CHARACTERISTICS PER 2022-05-31

	FUND	BENCHMARK
Number of holdings	348	3443
Duration	5.1	5.0
Yield to maturity	2.5 %	
Weighted rating	A-	BBB+

ONGOING CHARGES

Management fee	0.32 %
Service fee	0.10 %
Taxe d'abonnement	0.05 % +
Expected ongoing charges	**0,47 %**

DIVIDENDS

Last dividend	EUR 0.14
Ex-date last dividend	2022-01-13
Number of distributions per year	2
Dividend calendar	Open the calendar

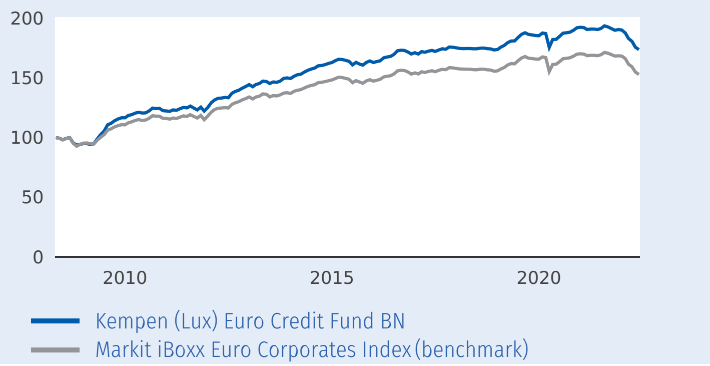
Performance

PERFORMANCE PER 2022-05-31

	FUND	BENCHMARK
1 month	-1.2 %	-1.3 %
3 months	-5.1 %	-5.3 %
This year	-8.7 %	-9.2 %
2019	6.6 %	6.3 %
2020	3.8 %	2.7 %
2021	-1.2 %	-1.1 %
1 year (on annual basis)	-8.9 %	-9.3 %
3 years (on annual basis)	-1.4 %	-1.9 %
5 years (on annual basis)	0.1 %	-0.4 %
Since inception (on annual basis)	4.0 %	3.1 %

On 8 October 2013, the rebate free class (BN) of Kempen (Lux) Euro Credit Fund was launched. The results shown of the period 20 June 2013 until 8 October 2013 are those of class A of the same fund. The higher management fee of Class A has had an impact on the performance quoted. On 20 June 2013, Kempen Euro Credit Fund (KECF) was merged with Kempen (Lux) Euro Credit Fund. Up to 30 January 2012 (start of the Fund's A class) the performance graph and performance table show the performance of KECF, for the period January 2012 till June 2013 the results of class A of Kempen (Lux) Euro Credit Fund are shown. The average annual TER for the period of April 2008 till June 2013 is 0.91%. Performance is shown after deduction of ongoing charges and including the reinvestment of dividend that has been paid out. The value of your investments may fluctuate. Past performance provides no guarantee for the future.

PERFORMANCE SINCE INCEPTION PER 2022-05-31 (REBASED)



Portfolio

MATURITY PROFILE (2022-05-31)

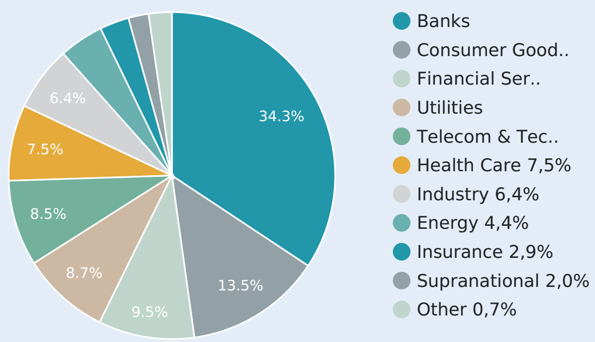
	Fund	Benchmark
5-7 year	31.4 %	19.0 %
3-5 year	23.8 %	27.9 %
0-3 year	18.6 %	28.8 %
7-10 year	14.9 %	15.9 %
> 10 year	9.9 %	8.4 %
Cash	1.7 %	0.0 %
Other	0.1 %	0.0 %
TOTAL	100 %	100 %

RATING ALLOCATION (2022-05-31)

	Fund	Benchmark
AAA	8.1 %	0.3 %
AA	4.1 %	8.5 %
A	36.0 %	39.0 %
BBB	45.3 %	52.2 %
BB	3.3 %	0.0 %
Not Rated	1.4 %	0.0 %
Cash	1.7 %	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 (2022-05-31)



The cash position is included in 'Other'.

Developments

DEVELOPMENTS PER 2022-05-31

In May, the spread of the iBoxx Euro Corporates Index widened by 19 basis points to a level of 103 basis points over the swap curve. This is equivalent to 160 basis points over the government bond curve. The index earned a total return of -1.28%. German 10-year government bond yields closed May at +1.12%, representing an increase of 18 basis points compared to the end of April 2022.

The month of May started out with an eerily calm feel, probably helped by national holidays in various countries throughout Europe. Spreads moved sideways for a few days and US equity markets were broadly flattish as well. This lack of volatility however didn't last long. At the end of the week, spreads started to march higher and equity markets weakened considerably. There was no clear event that caused this weakness. A steady drumbeat of small negatives impacted risk sentiment. The continued supply of inflation figures that surprised to the upside, the impact of the very strict lockdowns in various parts of China, signs that inflation was negatively impacting economic growth around the world and the headlines surrounding the war in Ukraine all had its effects. Credit spreads topped out at almost 110 bps which was 15 bps wider than the highs reached in March.

In week three, the much hoped for equity 'bear market rally' started which calmed credit markets in Europe and caused credit spreads to contract by about 6 bps from the highs.

On the macro data front, the US ISM manufacturing index weakened to 55.4 from the 57.1 level reached in April while an increase was expected. The number does however point to still steady economic expansion in the US. This was also confirmed by solid durable goods and factory orders. Meanwhile, inflation numbers again came in higher than expected but declined slightly from the peak reached in April. CPI came in at 8.3% YoY vs 8.5 in April and expectations of 8.1%. Core CPI came in at 6.2% YoY vs 6.5% in April and expectations of 6%. The labour market remained very tight in the US and the unemployment rate remained at the 3.6% level. Despite this, real average hourly earnings remain in negative territory due to the aforementioned high inflation.

In Europe, labour markets continued to tighten. UK unemployment fell to the lowest level since 1974, while eurozone unemployment is now the lowest on record. This supported an acceleration in wage growth in both economies, but with inflation very high, real wages remain negative here as well.

The inflation numbers have kept all eyes on the path forward by central banks. US and European markets are now pricing an aggressive rate hike cycle for the next 12-18 months. This is on top of the quantitative tightening that is about to start with central banks unwinding their balance sheets after years of providing massive stimulus to the markets via QE. So far central banks have kept underestimating the strength and stickiness of inflation around the world and are trying to catch up. Especially in Europe the comments regarding rate hikes keep getting 'nearer' every month. From initial comments that this would be a 2023 event, to signaling that the policy rate might be increased at the end of the year but would be kept in negative territory, to 'we might end the year at 0% rate' to discussions about a 50 bps hike soon to combat inflation.

Anyhow, markets are now divided in two camps. One that rate hikes will cool the economy to such an extent that central banks are bound to stop their hiking campaign at a comfortable level for markets to continue to provide attractive returns to investors. The other one is that inflation is so sticky that central banks have no choice other than to continue to hike aggressively regardless of the impact this will have on economic growth and especially equity markets. As ever the hope camp is still where the majority of the investors currently reside. We lean more toward the latter camp. High inflation is worse for societies in the longer run than temporarily high unemployment numbers and we sense that on average central bankers around the world have internalized this. We also note that unemployment levels are at multi decade lows in major economies around the world.

The portfolio started to outperform when overall market weakness kicked in. After markets started to stabilize and rally a bit at the end of the month we hardly lost any of the alpha generated in the first three weeks.

We started the month slightly underweight risk from a beta perspective and slowly let our beta drift further downwards when weakness kicked in. At the end of the month, when the market felt a bit firmer we increased our beta a bit again by buying wide trading bonds of solid credit stories. However, we did this in limited fashion in order to keep our overall beta position slightly to moderately underweight.

Corporate supply totaled €32billion in May, in line with the usual €30-35billion for the month. This is a notable increase on the limited amount of supply of €9billion in April. We also saw new issue premiums ("NIPs") increasing on new deals, regularly being in the 10 to 25 bps area. The ECB was less active in primary activity, in anticipation of a full stop at the end of June.

Financial supply in May amounted to €31billion, up on the previous years. On a year-to-date basis, financial supply (excluding covered bonds) are now pencilled in at €144billion, running ahead of the past five years.

The weak demand for credit continued into May. JP Morgan registered roughly €2.5billion of outflows in EUR IG. Year to date, cumulative outflows stand at €11.8billion, equivalent to ~5% of AUMs. Purchases under the CSPP program in May, amounted to more thans €7billion, similar to the preceding month. June is expected to be the last month with CSPP purchases. We expect this to have an impact on secondary spreads.

The portfolio delivered a return of -1.11% (gross). This was 17 basis points above the benchmark return of –1.28%. During the month, the portfolio's sensitivity to market trends varied between 94% and 98% in beta terms. The portfolio is still underweight spread duration mainly in the longer end of the credit spectrum where credit curves are too flat. Besides that the portfolio is invested in defensive off benchmark segments such as covered bonds, agencies, supranationals and still runs a relative high cash balance. The portfolio continues to have a large underweight in BBBs , a reflection of tight valuations at an issuer level given the uncertainty surrounding the market and economy.

With spreads wider over the month our exposure to defensive off benchmark segments [in covered bonds, agencies, supranationals and cash] contributed positively to the outperformance as did our underweight in corporate hybrids. Our positioning in automobiles & parts, health care and real estate also had a positive contribution, while the infrastructure, chemicals and the insurance sector contributed negatively this month. On an individual issuer level the strategy saw a positive contribution from our underweight in Czech Grid and our overweights in Italgas and Telefonica. Our overweight in Autostrada and Sofina had a negative impact on performance.

In May, the Fund participated in new deals from McDonalds, Visa, National Grid, RWE, Fresenius, PPG, Suez and Coloplast amongst others. On the financials side, we participated in Erste Bank, DNB, Blackstone Holding, Credit Suisse, Société Générale, NAB and Morgan Stanley amongst others. Despite the volatility, new issue activity in May was decent. This led to quite attractive NIPs at times and, in some instances, to significant spread widening of existing curves.

Outlook

Although credit spreads have widened quite a bit in May and are currently above the wides seen in March, we remain on the cautious side. We see more risks on the horizon, including a prolonged Russian invasion, uncertainty regarding European energy supply and security, weaker global growth, stubbornly high inflation and renewed Covid fears and associated lock downs in Asia. We are still moderately bearish and think spreads could move wider from here. The main reasons being, a weaker macro-economic environment, aggressive hiking by central banks and the start of QT globally. Q1 2022 company results were solid but we fear that higher rates and a potential recession in both Europe and the US over the next 18 months are not adequately reflected in earnings and profit guidance at present. Although spreads have backed up from all-time lows they are not yet high enough to fully compensate for the risks that we have identified. The technical backdrop is not supportive with supply expected to increase in June as issuers may want to benefit from the last month of CSPP. For 2022, we expect spreads between rating categories to decompress. We are strongly underweight the BBB segment as a result. Lastly we are also underweight the long end of the credit curve due to the expected impact of rising rates on longer dated maturities and the relative flatness of curves in general.

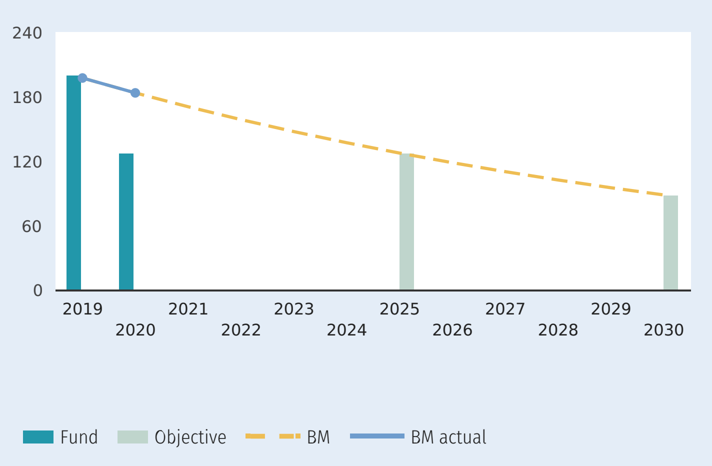
ESG

ENVIRONMENTAL AND/OR SOCIAL CHARACTERISTICS PROMOTED

The Kempen Euro Credit Fund, Kempen Euro Credit Fund Plus and Kempen Euro High Yield Fund (the "Funds") fall under the scope of article 8 of the SFDR which means that the Funds promote environmental and/or social characteristics. This Funds will invest in a broad range of companies, of which some will have sustainability objectives.

The Fund commits to the goals of the Paris Agreement. This encompasses short-term objectives (2025), a mid-term ambition (2030) and a long-term commitment to be a net zero investor by 2050. By 2025, we aim to be aligned with a path to achieving the Paris Agreement and Dutch Klimaatakkoord. We follow the market reduction, which assumes a pathway in line with the EU Benchmarks.

FUND CARBON EMISSION TARGETS



MORNINGSTAR SUSTAINABILITY RATING

ESG INVESTMENT PROCESS

The promotion of environmental and/or social characteristics is achieved through the consistent implementation of the Funds ESG policy. The ESG policy is fully implemented in our strategy's investment process across the three relevant pillars of: Exclusion, ESG integration and Active ownership.

In the investment process we assess the ESG profile of a company. We look at each company on a case-by-case basis, taking into account material risks in a given industry in combination with the company's respective risk exposure, practices and disclosure. This includes an assessment of good governance practices. The investee companies are rated for governance aspects using external research as well as making internal assessments. Furthermore, we look into the company's exposure to past controversies and future ESG opportunities. Based on the fundamental ESG analysis we form an opinion on the quality of a company's ESG profile.

EXCLUSION

The Fund applies exclusion criteria. These take into account international standards, such as UN Global Compact Framework, the OECD Guidelines for Multinational Enterprises, UN Guiding Principles for Business and Human Rights, and our Principles for Responsible Investment commitments. The Funds apply additional exclusion criteria based on product involvement and business conduct.

KEY FIGURES

	KEMPEN CRITERIA	*ADDITIONAL CRITERIA*
BUSINESS CONDUCT		
Human Rights		
Labour		
Environment		
Anti Corruption		
PRODUCT INVOLVEMENT		
Controversial Weapons		
Tobacco		
Thermal Coal		
Tar Sands		
Adult Entertainment		
Alcohol		
Animal Welfare & GMO		
Gambling		
Power Generation Nuclear		
Power Generation Carbon Intensi...		
(Un)conventional Oil & Gas Extra...		
Weaponry		

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 60, avenue J.F. Kennedy, L-1855, 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.