Kempen (Lux) Euro Sustainable Credit Fund IX

LU2115422920

Overview

PROFILE

Kempen International Funds SICAV - Kempen (Lux) Euro Sustainable Credit Fund (the Fund) invests primarily in credits that have an investment grade rating (of minimal BBB-) and are denominated in Euros. In addition, these companies must comply with strict sustainability criteria. 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 823.29 M	2022-11-30
Share class size	EUR 425.34 M	2022-11-30
Number of shares	476,907	2022-11-30
Net Asset Value	EUR 891.88	2022-11-30

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

0.500% FCA Bank Ireland 2020-23	1.5 %
0.000% PSA Banque France 2021-25	1.2 %
1.500% Enexis 2015-23	0.9 %
1.125% European Union 2016-36	0.8 %
3.750% ELM -Firmenich Int. PERP 2020-25	0.7 %
1.375% Danske Bank 2022-27	0.7 %
0.010% Goldman Sachs 2021-24	0.7 %
0.875% Ball Corp 2019-24	0.7 %
1.125% Italgas SPA 2017-24	0.7 %
0.125% KFW 2022-32	0.7 %

SHARE CLASS DETAILS

Share class	IX
Investor type	Institutional
Distributing	No
Benchmark	Markit iBoxx Euro Corporates Index
Duration hedged	No
Investment category	Credits
Universe	European credits
Inception date	2020-03-03
Domicile	Luxembourg
May be offered to professional investors only in	Luxembourg, 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, Luxembourg Branch

TRADABILITY

Minimum subscription	Initial subscription: €50,000 additional subscriptions: €10,000
Listed	no
Subscription/Redemption Frequency	Daily
ISIN	LU2115422920

FUND CHARACTERISTICS PER 2022-11-30

	FUND	*BENCHMARK*
Number of holdings	379	3496
Duration	4.9	4.8
Yield to maturity	3.9 %	
Weighted rating	A-	BBB+

ONGOING CHARGES

Management fee	0.29 %
Service fee	0.10 %
Taxe d'abonnement	0.01 % +
Expected ongoing charges	**0,40 %**

Performance

PERFORMANCE PER 2022-11-30

	FUND	*BENCHMARK*
1 month	2.8 %	2.8 %
3 months	-0.5 %	-0.6 %
This year	-12.0 %	-12.6 %
2020	2.5 %	1.9 %
2021	-1.2 %	-1.1 %
1 year (on annual basis)	-12.1 %	-12.7 %
Since inception (on annual basis)	-4.1 %	-4.5 %

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 2022-11-30 (REBASED)

Portfolio

MATURITY PROFILE (2022-11-30)

Fund		Benchmark
26.9 %	5-7 year	18.8 %
25.8 %	3-5 year	29.3 %
22.7 %	0-3 year	29.6 %
12.5 %	7-10 year	15.0 %
11.7 %	> 10 year	7.4 %
0.8 %	Cash	0.0 %
100 %	**TOTAL**	**100 %**

SECTOR ALLOCATION (2022-11-30)

The cash position is included in 'Other'.

RATING ALLOCATION (2022-11-30)

Fund		Benchmark
7.1 %	AAA	0.3 %
3.6 %	AA	8.5 %
34.6 %	A	41.1 %
48.8 %	BBB	50.1 %
3.9 %	BB	0.0 %
1.2 %	Not Rated	0.0 %
0.8 %	Cash	0.0 %
100 %	**TOTAL**	**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.

Developments

DEVELOPMENTS PER 2022-11-30

In November, the spread of the iBoxx Euro Corporates Index tightened by 23 basis points to a level of 111 basis points over the swap curve. This is equivalent to approximately 180 basis points over the government bond curve. The index earned a total return of +2.84%. German 10-year government bond yields closed November at +1.93%, representing a decrease of 21 basis points compared to the end of October 2022.

At the beginning of November, ongoing concerns about inflation and further central bank tightening were at the forefront of investors' minds. Central banks delivered another round of steep policy rate hikes. The Federal Reserve (Fed) and the Bank of England (BoE) raised policy rates by 75 basis points (bps) to 4.0% and 3.0% respectively. However, despite headwinds from tighter monetary policy, investor sentiment improved significantly after the release of US inflation numbers for October. The 7.7% YoY increase was below consensus expectations, fueling the market's hopes that US inflation has peaked and could prove less sticky than initially feared. The idea that falling inflation could mean that the end to the rate hiking cycle is not far off, gave both stocks and bonds a boost. We don't underwrite this line of thinking as we have extensively discussed in our last monthly. In our view, investors that expect a rapid decline in inflation numbers underestimate the second round effects earlier high inflation numbers have revealed. US average hourly earnings increased by 4.7% in October. Corrected for two outliers related to Covid, this index is now showing average wage gains of around 5% for over two years now vs 2 – 2.5% in the 2010-2015 time period. In fact, before covid an acceleration in wage gains was already present with the index increasing to 3 – 3.5% in 2018 and 2019. Furthermore, US labour markets remain tight with the unemployment rate remaining near multi-decades lows at 3.7%.
Even in the Eurozone, the unemployment rate hit an all-time low. This is despite all the doom and gloom around economic growth and the energy situation. As a result, we also see significant wage gains, especially in the Northern part of the eurozone area.

The good news from the inflation front coupled with better than expected economic data and a clear pick up of inflows into the asset class clearly supported credit spreads during the month. This was mimicked in the government bond market. The 10 year German government bond yield decreased by 21 basis points, French OATs decreased by 27 bps and Italian BTPs even decreased by 42 bps.

US macro data continues to point to a resilient economy. Retail sales were better than expected, with growth of 1.3% MoM. A wide gap remains between very negative consumer sentiment and actual consumer behaviour as excess savings and a resilient labour market currently appear to be prevailing over growing concerns about a loss of consumer purchasing power. The US housing market remains the most impacted by higher interest rates. Housing starts, which in April topped 1.8 million units (annualised) for the first time since 2006, fell to 1.4 million units in October. Existing home sales for October showed a further decline. The sharp increase in the 30-year fixed-rate mortgage is depressing housing affordability to levels last seen in 2006 (source: JP Morgan).

The October eurozone CPI (consumer price index) rose 10.6% YoY, a new high. Food prices and energy costs were the main drivers. Europe continues to feel the effects of the energy crisis and the delayed price pass-through to end customers. In October alone, energy costs in Italy rose by 24.1% MoM and thus made a significant contribution to inflation in the region. Nevertheless, there was also some positive news on the inflation front. Producer prices in Germany fell by 4.2% in October. This is the largest monthly decline in at least three decades and is a sign that inflationary pressures from input prices are easing. The preliminary Eurozone CPI release for November also showed a slight easing in inflation down to 10% YoY. Indicators of economic activity in the eurozone surprised to the upside in November. The eurozone composite purchasing managers' index (PMI) improved slightly to 47.8 vs. 47.3 and consumer confidence improved from very low levels. Lastly, 3rd quarter eurozone GDP growth came in higher than initially expected at 1.2%.

In China, policymakers introduced an easing of some pandemic control measures and increased their drive to vaccinate more of the elderly, which re-ignited hopes that the country is moving incrementally towards the end of its zero-Covid policy. While an announcement of a complete end to zero-Covid still looks someway off, it ignited a turnaround in performance of Asian and emerging market equities in November. A strong recovery in Chinese demand would be beneficial not only for China but also for all major trading partners.

During November we increased the risk position in the fund. Our slight beta overweight is coupled with a larger spread duration underweight, as we remain quite underweight the long end of the credit curve. From an overall risk perspective we remain cautious on the market. Wide spreads and increasing dispersion continue to present interesting relative value opportunities.

November was a busy month in terms of supply – we had €70.6bn of gross issuance and financials took the lead again with €43.7bn vs €26.9bn for corporates. Interestingly, we also saw higher risk issuance in the form of REITS and utilities hybrids. With the market sentiment strong, new issue premiums are starting to evaporate again for higher quality issuers. Net issuance was €38.2bn, the highest YTD.

The remarkable strength in the market was driven by the demand for credit, with strong inflows every week and a total inflow estimated at €4.2bn for the month, or 2% of AUM. The inflows were broad based and not just from ETFs.

The portfolio delivered a return of +2.82% (gross). This was 3 basis points below the benchmark return of +2.84%. During the month, the portfolio's sensitivity to market trends varied between 101% and 105% in beta terms. The portfolio is underweight spread duration, mainly at the longer end of the credit spectrum where credit curves remain relatively flat. The portfolio remains invested in defensive off benchmark segments such as covered bonds, agencies and supranationals. The portfolio continues to have an underweight in BBBs, a reflection of tight valuations at an issuer level given the uncertainty surrounding the market and economy.

With spreads clearly tightening over the month our exposure to defensive off benchmark segments (in covered bonds, agencies and cash) contributed negatively to performance. Our positioning in oil & gas, infrastructure and telecommunications had a positive contribution, while utilities and automobiles & parts contributed negatively this month. On an individual issuer level, the strategy saw a positive contribution from our overweights in Enel, Thermo Fisher and Firmenich and our underweight in Volkswagen. Our overweights in FCA Bank and PSA Banque and our underweight in Unibail had a negative impact on performance.

In November, the Fund participated in new deals from Schneider Electric, Booking, Iberdrola, Paccar, Bertelsmann, Valeo and Continental amongst others. On the financials side, we participated in Sabadell, SEB, Hannover Ruckversicherungen, Jyske Bank, Credit Suisse, Societe Generale, Allied Irish Bank, Great West Lifeco, Arval, Leasys, KBC, Achmea, Metlife, BPCEGP, Argenta Sparen, La Banque Postale and BFCM amongst others.

Outlook

Although credit spreads are at relatively decent levels, 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 and stubbornly high inflation. We are still moderately bearish and think spreads could widen due to the weaker macro-economic environment, expectations for continued central banks hiking and impact over time of Quantitative Tightening globally. On top of that we expect inflation to remain sticky. Q3 2022 company results were relatively 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 guidance at present. Spreads are too low to fully compensate for the risks that we have identified. The technical backdrop is turning more supportive with inflows in the asset class but supply is expected to remain elevated. We expect spreads between rating categories to decompress. We are underweight the BBB segment as a result. Lastly we remain underweight spread duration.

Sustainability-related disclosures

FUND CARBON EMISSION TARGETS

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 Sustainable 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). 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 of the Fund are available at the registered office of the Fund located at 60, avenue J.F. Kennedy, L-1855, Luxembourg 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.