EnCor Fixed Income Strategy

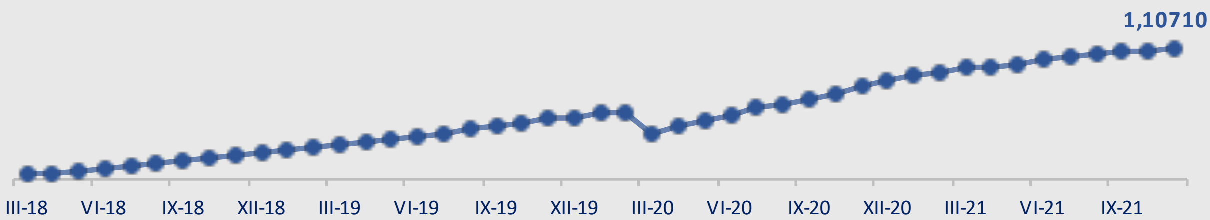
Sub-fund of EnCor Funds SICAV, a.s.

ISIN:	CZ0008043106
Currency :	CZK
Period:	November 2021
Asset under management:	693 mil. CZK
Value of share:	1,1071 CZK

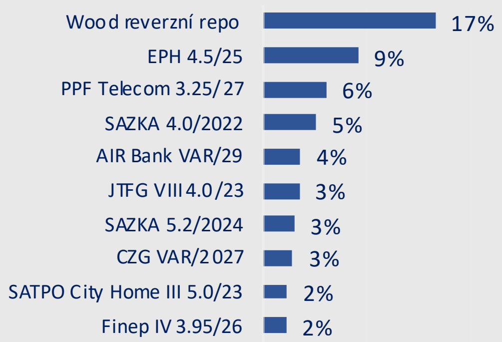
Fund performance

Time period	1M	3M	6M	12M	Since inception
Performance	0,18%	0,49%	1,19%	2,96%	10,71%

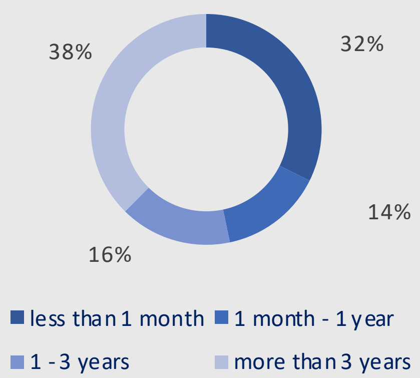
Net Asset Value per Share development in CZK



Top 10 positions in portfolio



Duration structure



Market update

Conditions in global credit markets deteriorated through November but steadied in early December, as ever-higher inflation readings pointed to a likely need for tighter monetary policy from the G10 Central Banks going forward. In addition, further disruption risks due to the spread of the COVID "delta" and "omicron" variants may amplify the downdraft observed in economic growth data.

November consumer price inflation in the US, Germany and the UK spiked to 6.8%, 5.2% and 5.1% year-on-year respectively and the levels look likely to increase. More price hikes for consumers look probable, as November's factory-gate producer price inflation ("PPI") data from major exporters Germany, China and the US stood at 19.2%, 12.9% and 9.6% year-on-year. Prices not being passed on to consumers and corporate margins coming under pressure would not be good news for credit markets. As we set out below, our Fund is well-prepared for these developments.

November's Czech CPI and PPI readings came in at 6.0% and 13.5% year on year, levels that justified the significant 125bp interest rate hike on 4 November. The CNB followed this up with another 100bp hike on 22 December, bringing the main policy interest rate to 3.75%. We expect the CNB to keep hiking interest rates to 4.0% or above in the coming months, as inflation ticks up towards 7%-8%.

Mark Robinson, Member of the Investment Committee

Portfolio update

The Fund again delivered a positive return in November, even in the face of falling Czech bond prices caused by the interest rate hikes. We have achieved this through holding short average bond maturities, having a high proportion of liquid instruments and, in particular, hedging against rising interest rates with interest rate swaps. We see the situation of rising interest rates and falling bond prices as an opportunity as much as threat. We have begun to invest our surplus liquidity in bonds with notably higher yields than we have achieved so far. This process of realigning the portfolio will take several months, if not quarters and its length will partially depend on the extent and speed of CNB interest rate rises. During November, we bought new positions in the 4-year bonds of industrial real estate developer KKIG and Euro-denominated subordinated floating rate bonds of Erste Bank. We added to the portfolio's holding in diversified Central European real estate player GTC. Our well-secured Czech residential real estate bridge loan to SATPO matured in November with full repayment.

Lubor Žalman, Founder of the fund

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