

# EUR Investment Grade Credit Fund

## OBJECTIVES AND PROCESS

- Seeks total return, maximising investment income whilst preserving capital
- Invests at least two-thirds of its assets in investment grade euro-denominated credit debt securities
- Invests at least two-thirds of its total assets in issuers that have a proprietary overall ESGiQ score that is favourable by meeting the threshold specified in our methodology and will exclude issuers that have less favourable or those that do not have an ESGiQ score, such as sovereign issuers, cash, derivatives and investments in underlying funds
- Uses fundamental credit research combined with active top-down allocation decisions within a controlled risk framework, seeking to generate superior investment returns
- Uses a negative screen to exclude securities issued by companies based on their exposure to ESG risks
- Targets a carbon intensity that is lower than the benchmark
- May invest:
  - Up to one-third of its assets in currency-hedged non-euro-denominated debt securities and debt securities rated below investment grade
  - Up to 20% of its assets in asset-backed securities
  - In derivatives for hedging, efficient portfolio management or for investment purposes provided credit default swaps are covered

## KEY RISKS

**Debt securities risk:** debt securities are subject to credit risk and interest rate risk and are affected by an issuer's ability to make interest payments or repay principal when due. **Asset-backed securities risk:** asset-backed securities may be more sensitive to changes in interest rates and may exhibit added volatility, known as extension risk, and are subject to prepayment risk. **High yield securities risk:** high yield securities are rated below investment grade, are predominantly speculative, have a much greater risk of default and may be more volatile than higher-rated securities of similar maturity. **Derivatives risk:** the use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. **ESG risk:** applying an ESG screen for security selection may result in lost opportunity in a security or industry resulting in possible underperformance relative to peers, ESG screens are dependent on third party data and errors in the data may result in the incorrect inclusion or exclusion of a security.

## Calendar-year performance (%)

Past performance is not indicative of future results.

	2023	2022	2021	2020	2019	2018
Class I (EUR) (19 Jun 2017)*	8.32	-14.69	-1.00	3.48	7.12	-2.24
ICE BofA Euro Corporate Index (EUR) <sup>1</sup>	8.09	-13.91	-1.02	2.65	6.25	-1.14

## Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I (EUR) (19 Jun 2017)*	1.36	0.93	0.93	7.63	-2.42	-0.18	—	0.27
ICE BofA Euro Corp Index(Euro) NEW <sup>1</sup>	1.21	0.40	0.40	6.78	-2.38	-0.47	—	0.10

**Past performance is not indicative of future results.** Performance calculations are net of all applicable fees and are calculated on a NAV-to-NAV basis (with income re-invested). Performance shown is for class and currency indicated and returns may increase/decrease as a result of currency fluctuations. \*Share class inception date

## Market overview

The fund returned 1.36% in March on a net basis, outperforming the ICE BofA Euro Corporate Index which returned 1.19%, an outperformance of 17 basis points (bps). Over the first quarter, the fund returned 0.93% on a net basis, outperforming the index by 54bps.

Over the first quarter, credit spreads as measured by the ICE BofA Euro Corporate Index tightened by 24bps from a spread of government bonds +136bps to +112bps, leading to an excess return of 1.47%. Total return for the quarter was 0.40%; the 10-year German government bond repriced 27bps higher in yield to finish the quarter at 2.30%.

Two main themes were in play over the first quarter of 2024; a repricing in the expected number of developed rate cuts for 2024 and large flows into the fixed income asset class. The repricing in rate cuts was driven by a mixture of stronger than expected data and a push back on market pricing by central banks. From a European perspective, almost 160bps of rate cuts for 2024 were priced in to the curve at the end of 2023 which shifted to 90bps for the year as of the end of March with the first cut priced for June. This brings the market closer to our expectation for 4 x 25 bps cuts, starting in June. Whilst this led to a 37bps back up in the 5 year German government bond, it did little to dampen appetite for credit with the quarter seeing record inflows, offering investors another bite at the cherry following the rapid rally in risk free rates in the final quarter of 2023.

Supply broadly kept up with investor demand as issuers have front loaded supply ahead of the election cycle that kicks in later in the year. Demand for new deal has been elevated with books up to 7 x done and New Issue Premiums (NIPs) dropping from 40bps+ at the start of the year to zero at the end of March with expectation that volumes of supply could disappoint in the second half of the year.

Stronger risk sentiment allowed cheaper sectors such as Financials and real estate to perform with the later successfully returning to the primary markets which has been seen as a vote of confidence from investors and allowed real estate companies to refinance upcoming maturities.

Whilst Q4 2023 corporate reporting was broadly supportive from a fundamental perspective, metrics have been flattered by the energy price spike dropping out of the Year-on-Year metrics such as leverage and interest coverage. Cash reserves built up by

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

All named companies are for illustrative purposes only and not a recommendation to trade.



# EUR Investment Grade Credit Fund

## GENERAL FUND INFORMATION

**Portfolio managers:** Henrietta Pacquement, CFA<sup>\*</sup>; Alex Temple; and Christopher Burrows, CFA<sup>\*</sup>

**Benchmark:** ICE BofA Euro Corp Index(Euro) NEW<sup>1</sup>

**Fund inception:** 19 Jun 2017

**Management approach:** Actively managed

**Sustainable Finance Disclosure Regulation:** Article 8<sup>1</sup>

corporates as a war chest during the pandemic have begun to run down as cash is used to pay back debt to avoid refinancing at higher levels and for modest distributions.

## Performance

In Q1, credit contributed 0.50% to outperformance whilst the fund's interest rate exposure contributed 0.04% (shift 0.05% and twist -0.01%). The allocation effect at a sector level was 0.05%, with security selection contributing 0.45%.

The fund's Banking overweight contributed 0.09% (allocation effect: 0.01%; selection effect: 0.08%), Other Financial (real estate) contributed 0.19% (allocation effect: 0.02%; selection effect: 0.17%).

In the banking sector, Banco de Credito Social Cooperativo contributed +4bps and ABN AMRO +2bps.

From a real estate perspective, Heimstaden Bostad contributed +13bps and Grand City +6bps as investors returned to the perpetual bonds on the prospect of a refinancing, pushing up prices.

Recession, end of cycle dynamic remains the playbook. Long and variable lags: expectations for a soft landing are common but rare in reality. Neutral real rate of interest expected to be higher than in the prior decade, there is a bias to steeper risk-free curves as ECB, BOE constrained in the short-term by stickier core prices. We expect 4 x 25bps cuts in the deposit rate from the ECB this year, starting at the meeting in June. Embedded expectation that bonds will remain a risk diversifier.

The fund is overweight banks that should still benefit from the higher rate environment and market volatility. As the asset class is not eligible for the CSPP, it should outperform as non-financial eligible corporates adjust to life post ECB buying.

The shift towards high quality financials has led to an increase in the funds allocation to A rated and above credits at the expense of the BBB bucket.

We continue see value in selected real estate issuers which have been able to benefit from inflation linked rents and maintain very high levels of occupancy. Many of these companies have undertaken creditor friendly actions such as turning off dividends, raising additional equity and have also used bank funding to replace capital markets. However, we have reduced our exposure in selected real estate issuers, taking advantage of the strong performance year-to-date.

Expectations for 2024 include circa €500 billion of gross supply and €50 billion of net supply.

<sup>1</sup>Promotes environmental and social characteristics but does not have a sustainable investment objective.



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