

# Climate Transition Global Buy and Maintain Fund

## OBJECTIVES AND PROCESS

- Seeks total return, maximising investment income whilst preserving capital
- Invests two-thirds of its assets in investment-grade credit debt securities—graded such at the time of purchase—issued by corporate issuers domiciled anywhere in the world
- May invest up to one-third of its total assets in below-investment-grade debt securities
- Will hedge non-GBP denominated investments to the GBP
- Will target to decarbonise the sub-fund by 2050
- Uses a negative screen to exclude securities issued by companies based on their exposure to ESG risks
- May invest up to 30% of its total assets in perpetual bonds
- May invest up to 15% of its total assets in emerging markets
- May also use derivatives for hedging, efficient portfolio management or for investment purposes
- Focus on bottom-up credit research with a focus on well-underwritten credits and relative value
- Intends to hold bonds until maturity

## KEY RISKS

**Debt securities risk:** Debt securities are subject to many factors, including, but not limited to, changes in interest rates and an issuer's ability and willingness to make payments when due. **Global investment risk:** Securities of certain jurisdictions may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. These may result in rapid and extreme changes in securities prices. **High yield securities risk:** High yield securities are rated below investment grade, have a higher risk of default and prices 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 "cash" 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.

**For regulatory reasons, we are unable to show performance until there is a complete 12 month performance record.**

## Market overview

In March credit spreads as measured by the ICE BofA Sterling Corporate index tightened by 7bps from a spread of government bonds +121bps to +114bps, leading to an excess return of 0.39%. Total return for the month was 1.82%; the 10-year UK government bond repriced 19bps lower in yield to 3.93%.

## Economic Review

The repricing in the expectation of central banks rate cuts has driven by a mixture of stronger than expected data and a push back on market pricing by central banks.

However, Chairman Powell has communicated that policy adjustments, including interest rate cuts, are likely to happen at some time this year. The ultimate time and degree of cuts remains unknown as there is uncertainty around the economic outlook and progress on inflation. Recent strong economic data reports have contributed to a modest repricing in rate expectations, with markets pricing in less cuts now in 2024. While the labour market has shown modest signs of deterioration, overall the underlying economy appears to be in good condition and the likelihood of a recession remains limited.

From a European perspective, almost 160bps of rate cuts for 2024 were priced into 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.

US Corporate credit issuance reached record levels in the first quarter and totaled to \$530bn. This was 30% more than the four-year trailing average, while full year supply estimates remain broadly in-line with last year around \$1.3tn. Many issuers sought to take advantage of robust credit market conditions which resulted in the elevated numbers. Non-financials made up a majority of issuance this quarter & here were some larger M&A-related deals from non-financial issuers which contributed to the higher supply.

In Europe, corporate bonds supply was more in line with the levels seen at the same point in 2023, keeping up with investor demand as issuers front load supply ahead of the election cycles kicking in later in the year. Demand for new deals 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.

## Outlook

Looking ahead, we expect strong demand, higher credit yields, and robust supply technicals to remain supportive of the Global Investment Grade Credit market:

**Spread outlook:** Credit spreads trended lower through the quarter. We expect to see spreads remain range-bound moving forward, as the effects of slowing growth are offset by tailwinds from strong demand.

**Macroeconomic outlook:** Economic activity has proven resilient in 2024, despite aggressive tightening of monetary policy and tightening financial conditions. However,

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.



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## GENERAL FUND INFORMATION

**Portfolio managers:** Henrietta Pacquement, CFA<sup>\*</sup>; Alex Temple; Scott M. Smith, CFA<sup>\*</sup>; and Jonathan Terry, CFA<sup>\*</sup>

**Benchmark:** ICE BofA Sterling Corporate Index<sup>1</sup>

**Fund inception:** 23 Aug 2023

**Management approach:** Actively managed

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

we believe that the monetary policy transmission mechanism is simply taking longer to impact the real economy: we expect to see slowing economic activity in 2H 2024.

**Government yield outlook:** Government bond yields moved meaningfully higher in the first quarter of 2024 as market expectations about the pace and magnitude of monetary policy tightening in 2024 softened. Strong economic data, a tight labour market and resilient inflation prints has resulted in a shift in market expectations. As a result, yields moved higher across the curve, with the US 2y +37bps YTD and the US 10y +32bps. The UK 10y gilt moved +40bps and the 10y bund +27bps with the curve bear flattening.

**Monetary policy outlook:** The market was too aggressive in its expectations of the pace and timing of monetary policy loosening – we expect to see strong economic and inflation data delay a cut to July 2024. We expect 4 x 25bps cuts in the deposit rate from the ECB this year, starting at the meeting in June.

**Curve shape outlook:** Credit curves modestly flattened over the quarter on the back of a demand for the long end. We expect this theme to persist heading into the second quarter which should enforce another strong technical in the market.

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



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1. The fund uses the ICE BofA Sterling Corporate Index for performance and carbon intensity comparison. The investments of the sub-fund may deviate significantly from the components of and their respective weightings in the benchmark. The benchmark index is not consistent with the environmental or social characteristics promoted by the sub-fund.

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