

# Climate Transition Global High Yield Fund

## OBJECTIVES AND PROCESS

- Seeks total return, consisting of a high level of income and capital appreciation
- Invests two-thirds of its assets in below investment-grade debt securities rated below investment grade of corporate issues domiciled anywhere in the world
- May invest no more than 10% of its net assets in unrated or lowest rated categorised debt securities
- Will hedge non-US\$-denominated investments to the US dollar
- 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 also use derivatives for hedging, efficient portfolio management or for investment purposes
- May invest up to 15% in contingent convertible bonds
- Focuses on bottom-up credit research with a focus on well-underwritten credits and relative value
- Seeks to balance income whilst aiming for a competitive yield to drive total returns

## 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. **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. **Convertible Securities Risk:** These instruments can be converted into common stock because of the occurrence of certain predetermined trigger events including when the issuer is in crisis resulting in possible price fluctuations and may be subject to redemption at the election of the issuer. **Contingent Convertible Bonds Risk:** These instruments can be converted from debt into equity because of the occurrence of certain predetermined trigger events including when the issuer is in crisis resulting in possible price fluctuations and potential liquidity concerns. **Currency Risk:** Currency exchange rates may fluctuate significantly over short periods of time and can be affected unpredictably by intervention (or the failure to intervene) by relevant governments or central banks, or by currency controls or political developments. **Leverage Risk:** the use of certain types of financial derivative instruments may create leverage which may increase share price volatility.

## Calendar-year performance (%)

Past performance is not indicative of future results.

	2024
Class I Dist. (USD) (6 Jun 2023)*	8.17
ICE BofA Developed Markets High Yield Constrained Index Hedged	8.67

## Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I Dist. (USD) (6 Jun 2023)*	-1.05	0.80	0.80	7.18	—	—	—	9.36
ICE BofA Developed Markets High Yield Constrained Index Hedged	-1.00	0.99	0.99	7.98	—	—	—	10.06

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

## Performance

The fund returned -1.05% in March on a net basis, versus the ICE BofA Developed Markets High Yield Constrained Index which returned -1.00%, an underperformance of 5 basis points (bps). Over the quarter the fund returned 0.80% on a net basis, underperforming the index by 19bps.

Credit spreads as measured by the ICE BofA Developed Markets High Yield Constrained Index ended the quarter 53bps wider at +350bps. Performance over the quarter was positive, up 0.99%, supported by substantial levels of running yield and a rally in US rates.

## Review

*"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair."*

Charles Dickens, "A Tale of two cities"

Credit spreads in March moved wider as uncertainty from the US Administration reached a crescendo ahead of the "Liberation Day" tariff announcements scheduled for the day after April Fools' Day.

Despite the on-off nature of the tariffs earlier in the quarter, uncertainty began to creep into US equities (lower prices) and the treasury market (lower yields on fears of lower growth) towards the end of the quarter as it became clear that tariffs and retaliatory tariffs were likely to be more permanent. The uncertainty has begun to feed into economic data with US March Consumer Confidence coming in at 92.9 (estimated at 94).

The main development over the quarter for Europe was the decision by many countries to build up their military capabilities in response to ongoing uncertainty in the Russia/Ukraine peace negotiations and the message that the US administration will put "America First" as promised by Trump during the election campaign.

To this end, Germany's conservative leader, Friedrich Merz, announced a boost to spending on defence, civil protection and intelligence, with spending over 1% of GDP exempt from debt restrictions. A EUR 500 billion infrastructure fund for additional

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:** Michael Schueller, CFA<sup>\*</sup>; Jens Vanbrabant, CFA<sup>\*</sup>; Chris Lee, CFA<sup>\*</sup>; and Sarah Harrison

**Benchmark:** ICE BofA Developed Markets High Yield Constrained Index Hedged

**Fund inception:** 6 Jun 2023

**Management approach:** Actively managed

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

investment over 10 years including EUR 100 billion to cover climate protection initiatives and additionally, German States will be allowed to borrow up to 0.35% of GDP above the debt limit. European leaders also unlocked plans for a combined EUR 800 billion in European military spending. Given the magnitude of the spending plans, European government bond yields moved higher with the German 10 year bond moved 30bps higher in one day alone, the largest one day move in German yields since the fall of the Berlin wall. This in turn led to a large outperformance of European equity markets versus the US and followed through into the European PMIs with the composites beating expectations in France, Germany and the EU Bloc as a whole.

On the central bank side, the Federal Reserve held the benchmark rate in the 4.25%-4.50% target range with the median forecast indicating 50bps of rate cuts in 2025. Policy makers indicated that uncertainty around the economic outlook had increased and reduced the 2025 growth projection whilst at the same time, marking up inflation.

The Bank of England voted 8:1 to maintain their key interest rate at 4.5% citing a “gradual and careful” approach to easing with Governor Bailey indicating that rates are on a “gradually declining path”.

Bucking the trend, the ECB cut the deposit facility rate by 25bps to 2.5% indicating that rates are becoming “meaningfully less restrictive” with President Lagarde adding that inflation is set to reach 2% very early in 2026.

## Attribution

In the first quarter, credit contributed 0.03% to relative performance whilst the strategy’s interest rate exposure contributed -0.04% (shift -0.06% and twist 0.02%). The allocation effect at a sector level was down -0.07%, with security selection adding 0.10%.

The funds banking overweight contributed most positively to performance over the period, adding 0.03% (allocation effect: 0.01%; selection effect: 0.01%). The sector was supported by investors allocating to more defensive pockets of the market. Machinery exposures were also positive for relative performance, adding 0.04% (allocation effect: 0.00%; selection effect: 0.04%).

Conversely, the funds allocation to department stores weighed most heavily on relative performance, down 0.05% (allocation effect: -0.04%; selection effect: -0.02%). Concerns over the health of the consumer, particularly in the US, weighed on the sector. Exposure to building materials was also negative, detracting 0.06% (allocation effect: 0.00%; selection effect: -0.06%).

Exposure to Eutelsat was one of the top contributing individual positions over the quarter. A souring relationship between the US and Europe have rapidly improved the competitive landscape, as European sovereigns shift away from Starlink in favour of home-based counterparts. AMS-Osram was also among the top contributors, trading well following their Q4 result where, margins continued to improve and revenue came in ahead of consensus.

Kohl’s Corporation was the largest individual detractor over the period despite reporting EBITDA ahead of consensus. The name traded poorly on weaker than expected guidance for 2025. PetSmart was also among the detractors. Weakness in revenues and poor margin trends contributed to a downgrade from Moody’s which sparked widespread selling. At these levels we continue to see value in the name given its favourable organic growth outlook and expectation they will stabilise share.

## Outlook

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



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## Macro

We expect the tariff impact to weigh on demand, bringing lower GDP growth in the latter half of this year. We also expect tariffs to have an inflationary impact and economic data realizing tariff effects to begin materializing in the middle quarters of the year. We anticipate central banks will exercise patience before cutting later in the year once trade war implications become more clear.

## Fundamentals

We believe credit fundamentals will erode from here and that defaults will rise, but from a low base and to a manageable level. Consumers and corporates alike went into this period of volatility in a strong position with the ability to weather the storm. Security selection in the single B space will be a key driver of performance. We have turned neutral on Cyclical, having been OW for most of 2024.

## Technical

We have seen retail buyers of high yield credit continue to step in and capture higher yields. We expect this demand to continue as we gain more clarity around tariff implications and where we are in the rates cycle. From a supply perspective, we expect issuance to remain muted in the near-term, but see signs of a pick-up in transaction activity which may increase net new issuance in the medium-term.

## Valuation

Valuations have quickly become more appealing. The strong starting point for high yield names from an earnings and balance sheet perspective provides us with comfort that they will be able to withstand tariff-related headwinds. As such, we believe this is an opportunity to capture compelling yields offering attractive risk-return payoffs. We see potential for near-term technical headwinds to persist however expect fundamental strength and high outright yields to act as a back stop to any further material valuation downside.



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