EUR Short Duration Credit Fund

OBJECTIVES AND PROCESS

- Seeks to maximise investment income whilst preserving capital
- Invests at least two-thirds of its assets in investment-grade euro-denominated short-term credit debt securities
- Has an average weighted duration of up to 3.5 years or less
- 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 foreign agencies
  - Up to 10% of its assets in investment-grade asset-backed securities
  - Up to 10% of its assets in below-investment-grade debt securities
  - In derivatives for hedging, efficient portfolio management or for investment purposes

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. **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. **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. **Geographic concentration risk:** investments concentrated in specific geographic regions and markets may be subject to greater volatility due to economic downturns and other factors affecting the specific geographic regions. **Global investment risk:** securities of certain jurisdictions may experience more rapid and extreme changes in value and 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. **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	2023	2022	2021	2020	2019	2018	2017	2016	2015
Class I (EUR) (4 Nov 2011)*	5.39	6.54	-8.92	-0.23	0.83	3.55	-1.15	1.72	2.81	0.64
Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]	4.81	6.39	-8.00	-0.08	1.11	2.77	-0.47	1.16	2.60	0.58

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I (EUR) (4 Nov 2011)*	0.21	1.19	1.92	5.53	4.17	1.33	1.21	2.05
Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]	0.32	1.48	2.18	5.91	3.94	1.38	1.25	2.07

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
Institutional Accumulating Euro share class (LU0694366682).

Performance

The fund returned 0.21% in June on a net basis, versus the Bloomberg Euro Aggregate Corporate 1-5 Year Index which returned 0.32%, an underperformance of 11 basis points (bps). Over the quarter the fund returned 1.19%, versus the benchmark at 1.48%.

(Asset Class) Review

The end of June marks the second quarter and 1st half of the year like no other. Elevated political uncertainty and geopolitical shocks have continued to leave the market largely unscathed with global equity markets at the highs, led by Europe and credit spreads pushing towards the tights. A notable example of investors looking through the risks was the reaction to the US decision to bomb Iranian nuclear sites, risking further escalation in the Middle East and disruption to the supply route for a fifth of the world's oil. Whilst government bond yields moved higher, reflecting higher inflation expectations, credit spreads were unchanged, and the oil price collapsed as missiles were fired at US airbases in the understanding that the situation would swiftly de-escalate.

Tariff concerns were put on snooze following a 90-day pause on the "Liberation Day" tariffs with the new deadline set for the July 9th. Expectations remain that countries will continue to negotiate with many seeking a second hit of the snooze button. Whilst the impact is starting to show in the data, so far the effect has been more muted than many expected, primarily due to expectations of further u-turns as the US weighs the impact on its own economy that continues to grapple with a cost-of-living crisis.

The ECB have cut rates in Europe four times since the start of the year, latest by another 25bps in June, leaving the base rate at 2%, halving the deposit rate from this time last year. This is against a backdrop of slowly improving economic data in the Euro Area with Services PMI now back above 50 in June having dipped briefly below in May and France and Germany showing steady signs of improvement. Manufacturing is also on an improving trend, but many countries (Italy, France Germany) are still below 50. Euro Area core inflation is back towards the ECB's 2% target although services prices remain sticky.

The Bank of England has cut rates twice this year leaving base rates at 4.25%. The domestic economy saw a large payroll tax increase in early April and with headline CPI

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: Alex Temple; Christopher Burrows, CFA®; and Mark Cole

Benchmark: Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]

Fund inception: 4 Nov 2011

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8†

averaging at over 3% the BOE remains cautious with two more rate cuts priced in for 2025.

Corporate bond supply has been elevated in both the US and Europe. US corporates continue to issue in Euros as they seek to diversify their investor base, benefit from low outright yields and the more customised maturity profiles that European markets offer. June was the turn of the US auto manufacturing with Ford, American Honda, Stellantis and Hyundai all issuing Euro denominated bonds. Supply continues to be met with demand with early signs that foreign investors are seeking diversification (at the margins) from the US dollar with the EUR strengthening by more than 13% versus the dollar since the start of the year. We expect the pickup in US corporates borrowing in Euros to continue adding further depth and liquidity to an already sizable market.

Attribution

Credit

- On a relative basis credit contributed -0.11%. The allocation effect at a sector level was -0.01%, with security selection contributing -0.10%.

Rates

- The strategies interest rate exposure was down 0.03% (shift -0.02% and twist -0.01%)

Sector attribution

- Security selection within the insurance sector contributed most positively to performance, up 0.01% (allocation effect: 0.00%; selection effect: 0.01%).
- The funds banking exposure was among the largest detractors, down 0.05% (allocation effect: 0.00%; selection effect: -0.04%).

Security Attribution

- Exposure to AXA led performance over the quarter.
- An allocation to Worldline weighed most heavily on performance. The company is currently undergoing regulatory scrutiny and has now partnered with a third party to conduct a complete audit.

Outlook

We expect markets are pricing an overly optimistic outcome regarding tariffs and trade policy. As tariff pauses conclude, it is likely that these policy changes will negatively impact global growth and may contribute to an inflationary impulse, further complicating the efforts of central banks. However, corporate fundamentals remain relatively stable. Recent growth in earnings has been positive, and balance sheets are well-capitalised. While tariffs will undoubtedly impact earnings, the strong starting point should support continued strength in corporate fundamentals.

The next phase of Europe's economic recovery is underway, supported by the European Central Bank's recent rate cuts, which are beginning to provide a tailwind for activity and growth. We anticipate that this momentum will be further strengthened by a wave of new spending commitments, as Europe seeks to bolster its military strength amid rising geopolitical tensions. While recent softness in labour market data and consumer sentiment surveys has raised some concerns, we believe these trends are temporary and expect looser fiscal conditions to gradually filter through the economy, reinforcing the recovery.

We see room for modest near-term spread compression, but remain cautious, as the full impact of potential tariff implementation and its earnings implications has yet to be

†Promotes environmental and social characteristics but does not have a sustainable investment objective.

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reflected in valuations. Against this backdrop, we favour a tilt toward quality, however, it remains poised to capture oversold opportunities during periods of weakness.

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1. The Bloomberg Euro Corporate Bonds (1-5 Y) Index contains fixed-rate, investment-grade euro-denominated securities from industrial, utility and financial issuers only with a maturity of at least one year and up to, but not including 5 years. Inclusion is based on currency of the issue, not the domicile of the issuer. The Fund uses the Bloomberg Euro Aggregate Corporate Bonds 1-5 Yr. Index (EUR Unhedged) for performance comparison. The investments of the sub-fund may deviate significantly from the components of and their respective weightings in the benchmark.

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