Climate Transition Global Investment Grade Credit 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 issues domiciled anywhere in the world
- May invest up to one-third of its total assets in below-investment-grade 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
- 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

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. **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. **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. **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. **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. **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. **Emerging markets risk:** Emerging markets may be more sensitive than more mature markets to a variety of economic factors and may be less liquid than markets in the developed world. **Leverage risk:** the use of certain types of financial derivative instruments may create leverage which may increase share price volatility. **US Government Obligations risk:** Securities issued by US Government agencies or government sponsored may not be backed by the full faith and credit of the US Government and may be negatively impacted by adverse market and credit events.

Calendar-year performance (%)

Past performance is not indicative of future results.

	2023	2022	2021	2020
Class I Dist. (USD) (8 Nov 2019)*	9.51	-15.52	-0.93	8.48
Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]	9.10	-14.11	-0.79	8.26

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I Dist. (USD) (8 Nov 2019)*	1.17	4.00	4.18	9.39	-1.61	—	—	0.92
Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]	1.19	4.10	3.69	9.42	-1.25	—	—	1.17

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 1.17% in August on a net basis, underperforming the Bloomberg Global Aggregate Corporate Index (USD Hedged) which returned 1.19%, an underperformance of 2 basis point (bps). Year to date the fund has returned 4.18%, after fees, versus 3.69% for the benchmark.

In August credit spreads as measured by the Bloomberg Global Aggregate Corporate Index (USD Hedged) widened by 1bp from a spread of government bonds +101bps to +102bps, leading to an excess return of 0.07%. Total return for the month was 1.19%; the 10-year US Treasury bond repriced 12bps lower in yield at 3.91%.

Economic Review

August was an incredibly volatile month for financial markets, as highlighted by the VIX Index of volatility, which reached levels last seen in March 2020 during the Covid-19 market turmoil. The driver for the volatility was a weak US jobs report at the start of the month. The report showed that nonfarm payrolls were much softer-than-expected at +114k in July (vs expectations of +175k). There were also downward revisions to the previous couple of months which meant the US unemployment rate rose to 4.3% (previously 4.1%) leading to suggestions that a recession in the US was underway.

Risk assets, in particular, Japanese equities had already been on the back foot post the Bank of Japan (BOJ) hawkish rate hike at the end of July. With growing fears that a weakening US labour market would lead to a significant economic slowdown in the US, investors began to dial up their expectations for rate cuts from the Federal Reserve (FED). A more hawkish BOJ and dovish FED would narrow the interest rate differentials between the US and Japan. This put the profitability of the "Yen carry trade" (where investors borrowed YEN at low interest rates and invested in higher yielding currencies, such as the USD) in doubt. By the 5th of August the Nikkei was down almost 20% and this weakness quickly spread to other markets, leading to a decline of over 3% for the S&P 500 in one day (its worst daily performance since September 2022).

However, further data throughout the month pointed to a more positive outlook for the US economy, leading to most markets recovering their losses (Nikkei closing the month -1.1%), and in some cases even finishing the month higher (S&P 500 +2.4%). On the US employment side, the weekly initial jobless claims came in lower than expected and we saw July retail sales accelerate +1% month-on-month (versus +0.4% expected) which

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: Scott Smith, CFA®; Henrietta Pacquement, CFA®; Alex Temple; and Jonathan Terry, CFA®

Benchmark: Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]

Fund inception: 8 Nov 2019

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8[†]

showed a marked improvement on the revised -0.2% June reading. Comments from Fed Chairman Powell also eased investor fears that the FED could be too slow in cutting rates. At the annual Jackson Hole synopsis, the FED Chair stated that "The time had come for policy to adjust". With US Core CPI also falling to its lowest level since April 2021 (+3.2%), investors' expectations of a rate cut in September increased, with some investors even looking for a potential 50 basis point (bps) cut.

The relative stability in spreads in the face of slowing economic data highlights strong positive technical support from demand. Supply continues to be met with strong demand. The demand story of August was one of elevated weekly IG fund inflows. Inflows tend to follow periods of strong returns and the IG market has had positive monthly returns in May, June, and July with July being particularly strong. Weekly retail inflows in August were in the $4-6bn and €1-2bn range.

Performance

Credit contributed 0.09% to performance whilst the fund's interest rate exposure contributed -0.04% (shift: -0.02%; twist: 0.02%). The allocation effect at a sector level was -0.01%, with security selection contributing 0.09%.

The strategy's benchmark weight exposure to Real Estate (combined 'Other Financial' and REITS) contributed 0.09% (allocation: 0.00%; selection: 0.09%). Banking contributed 0.01% (allocation: 0.00%; selection: 0.01%), whilst the fund's off index exposure to Treasuries also contributed 0.01% (allocation: 0.01%; selection: 0.00%).

Continuing at the sector level, the fund's allocation to Consumer Cyclical, Consumer Non-Cyclical and Electric each contributed -0.01% to performance (allocation: 0.00%; selection: -0.01% for each sector).

From a single name perspective, a notable contributor to performance was the allocation to Swedish Real Estate company, Heimstaden Bostad (HEIBOS) which was positively impacted by headlines at one of their main shareholders, Swedish sovereign wealth fund Alecta. This helped to contribute 6bps to performance. Other contributors to performance were German residential real estate company Grand City (GYCGR), US health insurer, UnitedHealth Group (UNH) and media entertainment company, Warner Media (WBD), which all contributed 1bp to performance.

Detractors to performance include retailer Nordstrom (JWN) and technology company, Intel (INTC), which were impacted by concerns of a slowing US economy. Both detracted 0.01% to performance. Another detractor to performance was Computershare (CPUAU), after their earning release missed the markets expectations. This also detracted 0.01% to performance.

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 remained range bound in the first half, we expect this to remain the case moving into H2, 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, 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.

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

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Government yield outlook: After trending higher in H1, government bond yields have begun to decrease as incoming data has started to disappoint – evidence points to a deceleration of global growth. The growth outlook supports a first move by the U.S. Federal Reserve in September – initiating its easing cycle; consistent with other global central banks. Yield curves have started to normalise/re-steepen, which we believe this will be supportive of total returns.

Monetary policy outlook: The emergence of a global growth slow down has set the stage for a first move by the U.S. Federal Reserve in September. We expect 2 more 25bps cuts in the deposit rate from the ECB this year, following their 25bps cut at the meeting in June.

Curve shape outlook: As global central banks progress to ease policy; expectations include a complementary steepening of credit curves. Shorter dated credit is likely to benefit from increased demand as cash alternative yields fall.

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1. The Bloomberg Global Aggregate Corporate Index (USD Hedged) is a flagship measure of global investment grade, fixed-rate corporate debt. This multi-currency benchmark includes bonds from developed and emerging markets issuers within the industrial, utility and financial sectors. You cannot invest directly in an index. The Fund uses the Bloomberg Global Aggregate Corporate Index (USD Hedged) 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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