

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.

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Class I (EUR) (4 Nov 2011)*	6.54	-8.92	-0.23	0.83	3.55	-1.15	1.72	2.81	0.64	4.05
Bloomberg Euro Corporate Bonds (1-5 Y) Index ¹	6.39	-8.00	-0.08	1.11	2.77	-0.47	1.16	2.60	0.58	3.96

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I (EUR) (4 Nov 2011)*	0.50	2.39	3.47	7.15	-0.09	0.12	0.91	1.89
Bloomberg Euro Corporate Bonds (1-5 Y) Index ¹	0.46	2.33	2.82	6.41	0.02	0.23	0.90	1.88

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).

Market overview

The fund returned 0.50% in August on a net basis, outperforming the Bloomberg Euro Aggregate Corporate 1-5 Year Index which returned 0.46%, an outperformance of 4 basis points (bps). Year to date, the fund has returned 3.47%, after fees, versus 2.82% for the benchmark.

Credit spreads as measured by the Bloomberg Euro Aggregate Corporate 1-5 Year Index widened 6 bps from a spread of government bonds +98bps to +104bps, leading to an excess return of -0.03%. Total return for the month was 0.46%; the 5-year German government bond repriced 4bps lower in yield to finish the month at 2.19%.

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

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^{*}; Alex Temple; and Christopher Burrows, CFA^{*}

Benchmark: Bloomberg Euro Corporate Bonds (1-5 Y) Index¹

Fund inception: 4 Nov 2011

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8[†]

saw July retail sales accelerate +1% month-on-month (versus +0.4% expected) which 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.

With many investors out for their summer holidays, it came as no surprise that activity in the credit markets was benign with little or no issuance in the credit markets for the first few weeks of August, a technical that helped support spreads despite the weaker macro backdrop. However primary activity returned with a bang in the last week of the month with almost €26bn of corporate issuance coming to the market. However, the large volume was well digested with books 3 times covered albeit with a healthy 11bps new issue premium to keep investors engaged.

Performance

Credit contributed 0.06% to outperformance whilst the fund's interest rate exposure contributed -0.03% (shift: -0.01%; twist: -0.02%). The allocation effect at a sector level was 0.03%, with security selection contributing 0.04%.

The strategy's benchmark weight exposure to Real Estate (combined 'Other Financial' and REITS) contributed 0.06% (allocation: 0.00%; selection: 0.06%). Banking contributed 0.01% (allocation: 0.00%; selection: 0.01%). Both Communications and Consumer Cyclical contributed -0.01% each (allocation: 0.00%; selection -0.01% for both sectors)

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 5bps to performance. Another contributor to performance was German residential real estate company Grand City (GYCGR), which contributed 2bp to performance.

The only detractor to performance was Worldline (WLNFP), the French digital payments provider, which was impacted by a softer than expected earnings release whilst also still suffering from the French political stand-off, which continued to keep investors on the side lines for French based credits. This detracted 1bp to performance.

Outlook

Corporate fundamentals remain benign, supported by expected earnings growth in H2.

Whilst an organic cyclical recovery has emerged in Europe, prospects remain fragile and renewed political uncertainty introduces additional downside risk. A partial recovery of the European consumer, owing to trailing real wage gains, is underway; reflected in surveyed consumer confidence. However, household consumption trends remain, so far, subdued (food retail volumes and large discretionary purchase activity remains depressed) - an anticipated primary driver of growth in the second half. Risks may be partially mitigated by additional interest rate cuts by the ECB (2 cuts are now expected however a third cut may materialise if growth disappoints).

While a soft landing is increasingly possible, with rate cuts now underway, the manager remains vigilant related to current and past tight policy conditions: expectations for a soft landing are common but rare in reality. The outlook includes expectations that the neutral real rate is likely higher than in the prior cycle and that risk free curves are vulnerable to a steepening bias. Tight policy conditions and a higher embedded neutral rate supports bonds as a future risk diversifier.

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



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The fund has maintained a barbell position with an expressed overweight (OW) to the 0–1-year bucket and the offsetting 5-7year bucket to benefit from the additional carry at the front end and allow for reinvestment into high coupon high quality bonds as we move through 2024. Since the start of 2024 the fund's 0–1-year allocation has decreased by approximately 5%.

The fund has begun to reduce its overweight to Banks now that spreads have normalised compared to non-financial spreads. We continue to 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.



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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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