

# 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
- 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. **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

For the quarter ended April 30, credit spreads as measured by the ICE BofA Developed Markets High Yield Constrained Index ended unchanged at +327bps. Total return for the index for the quarter was -76bps, driven by price declines.

## Economic Review

The high yield bond market saw some volatility in the month of April, with the repricing driven by the market continued to digest the change in expectations regarding the number of rate cuts in both the US and Europe in 2024. There was notable underperformance in the CCC space due to idiosyncratic issues, as well as the knock-on impact of a "higher-for-longer" environment; overlevered credits may struggle to refinance.

In Europe, issuance picked up significantly in the last two weeks of April with eight issuers launching deals totalling €6bn. The US market remained at similar pace, with close to \$26bn issued in the month. The notable theme as earnings season kicked off was dispersion; there were multiple point movers (both to the upside and downside) as companies beat or disappointed relative to expectations. Security selection will be a key driver of returns going forward.

## Market Outlook

### Macro

We believe we are near or at the end of the hiking cycle in both the United States and Europe, with "higher for longer" as our base case.

### 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.

### Technicals

We expect demand to continue to return the asset class now that is more clarity around where we are in the hiking cycle, ie at or near the end. From a supply perspective, we expect issuance to remain muted until we see the first rate cuts in 2024 or beyond. We expect rising stars to outpace fallen angels, further contributing to a positive technical.

### Valuation

We believe that valuation from a credit spread perspective appears stretched, but this is partially an illusion due to the shorter duration and maturity of the index relative to historical norms. Valuation remains attractive from an all-in yield perspective given where breakevens are. We expect credit spreads to remain rangebound.

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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