



April 2020

Mandate Overview

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PORTFOLIO DETAILS AND MARKET VALUE

Portfolio	
Benchmark	Bloomberg Barclays Euro Aggregate Corporate ex Greece Portugal Italy Spain EUR unhedged*
Portfolio Manager	Tom Moulds; Marc Stacey
Currency	EURO
Initial Funding Date	09 July 2008
Market Value at previous month end	EUR 436,507,296
Significant Cash Flow for the Period	N/A
End Market Value	EUR 454,710,402

Benchmark

*iBoxx Euro Corporates Index (QW5A) from performance inception to 30 November 2009. From 1 December 2009 to 30 June 2012, 30% iBoxx Euro Corporate Financials (QW5M) / 70% iBoxx Euro Corporate Non-Financials (QW51), rebalanced monthly. From 1 July 2012 to 06th June 2013, Barclays Euro Agg Corp ex PT IE IT GR ES 70% Non Fin 30% Fin (BEX3TREH), rebalanced monthly. From 07th June 2013 to date, Barclays Euro Aggregate Corporate ex Greece Portugal Italy Spain EUR Unhedged.

Objective

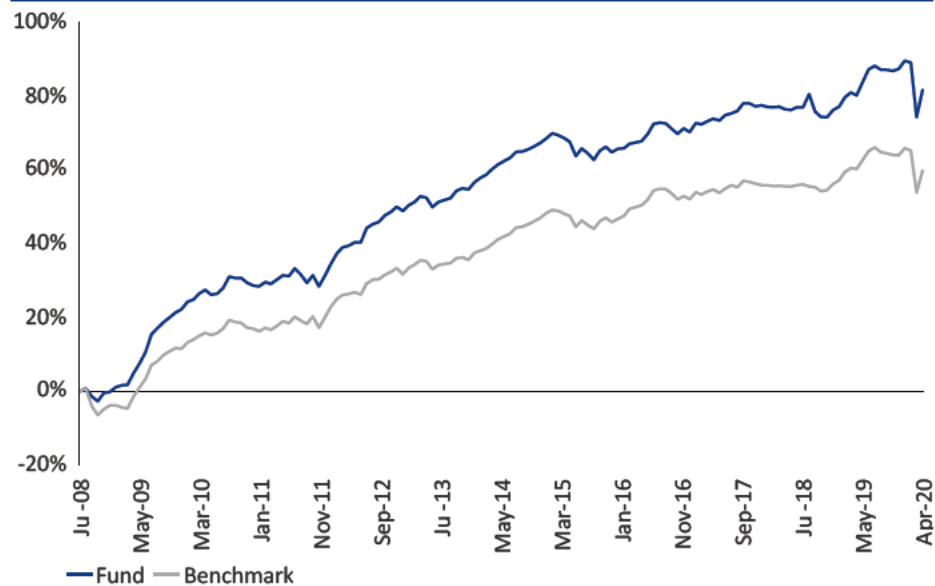
The Manager's objective is to generate an annualised total return of 100 basis points in excess of that generated by the Benchmark on average over the credit cycle.

Performance Review

PERFORMANCE APRIL 2020 (% EURO)

	1M	3M	6M	YTD	1YR	3YR ¹	5YR ¹	SI ^{1,2}
Portfolio	4.24	-4.16	-2.91	-3.03	0.40	1.61	1.49	5.21
Benchmark	3.86	-3.66	-2.84	-2.54	-0.42	1.25	1.55	4.07
Difference ³	0.38	-0.50	-0.07	-0.49	0.82	0.36	-0.06	1.14
Portfolio (net)	4.17	-4.29	-3.06	-3.17	0.10	1.29	1.18	4.85

CUMULATIVE RELATIVE PERFORMANCE²



RISK STATISTICS

Information Ratio	0.84
Standard Deviation	4.52
Tracking Error	1.36
Beta	0.98
VaR of the Portfolio as a % of Benchmark VaR	117.57

1. Performance figures shown for periods greater than one year are annualised.
2. Performance inception date is 31st July 2008.
3. Arithmetic Calculation source: BlueBay Asset Management LLP
4. Annualised tracking error and information ratio is calculated versus the benchmark.
5. Risk statistics are annualised and calculated using monthly data points since inception. For any meaningful results a minimum sample of 36 data points is recommended. Where history is less than 36 months extreme caution should be taken with the interpretation and representation of this data.
6. Portfolio return gross of fees unless otherwise stated. Gross Returns are calculated adjusting for cash flows using the Modified Dietz method.

Positioning and Outlook

Market Review

April saw returns on European corporates bounce positively as corporate spreads recovered some of their March weakness and core government yields also fell somewhat. Covid-19, its impact and the policy support in light of it continue to dominate the market's focus. Despite unprecedented drops in economic data, markets have seemingly moved to focus on the policy initiatives and the hopes of an imminent end to lockdowns.

In terms of policy response, the US Federal Reserve (Fed) has been far more aggressive in using its balance sheet to purchase assets and effectively create the necessary loose monetary conditions to support growth and markets. In Europe, however, we have seen further frustration around the response from the European Central Bank (ECB), with Christine Lagarde once again disappointing the market in her support for the periphery, and we have also seen a lack of co-ordinated response from EU governments, particularly around the demands for coronabonds or some sort of mutual debt issuance. In summary, in our opinion, the market feels that the policy announced, while substantial and arguably supportive of investment-grade corporate bonds, currently looks inadequate to support sovereign spreads. As such, we believe it is likely that, in true European style, the newsflow will have to get worse before difficult policy decisions are taken.

Core government bond yields generally range-traded through the month, ending a little lower. 10-year Bund yields ended 12 basis points (bps) lower, at -0.59%, while 10-year US Treasury yields were down just 3bps, ending the month at 0.64%. Investment-grade cash corporate spreads shrugged off the uncertain growth backdrop, showing the technical power of the policy responses, with the Fed joining the ECB in buying corporate bonds. At the cash index level, European corporate spreads were 55bps tighter in Europe and 88bps tighter in the US (BAML index data). These represent the biggest monthly spread moves since 2009 and represent close to 50% retracements in the spread widening seen in March. This leaves European index spreads at 183ps, a level last seen in mid-2012, and US spreads at 217bps, which is around where spreads peaked in early 2016 on growth concerns and the oil price collapse. Even more impressive is that this recovery took place at a time when we have been seeing record weekly amounts of issuance in both major markets.

Portfolio Review

The total return on the portfolio was +4.24% in April, compared to the benchmark return of +3.86%, an outperformance of 38bps. This leaves the year-to-date return at -3.03%, which is 49bps behind the benchmark. Positive returns were driven mostly by aggressive corporate spread tightening but also helped by lower Bund yields.

Looking at the outperformance, this all came from the long top-down positioning. Having added to corporate risk (beta) on the weakness in March, the long risk position added significantly to returns in April and indeed we used this to start booking profits, by reducing risk somewhat as spreads recovered.

Looking at bottom-up positions, the bank and insurance overweights were among the top contributors – led by Deutsche Bank, Allianz, Credit Suisse, UBS, Intesa and UniCredit – as was the EDF corporate hybrid position. The top contributor was the recent new-issue purchase in beverage giant Anheuser-Busch. We have been able to generate alpha over the last few months by selectively playing cheap new issues in solid credits that have come significantly cheap to secondary levels.

With most credits seeing spread tightening, the performance detractors were predominantly the underweight positions, particularly in names in some of the better performing cyclical sectors, such as automotives, chemicals and construction. The portfolio had limited active interest-rate risk and so this had little impact on returns.

Market Outlook

We believe covid-19 makes for a very uncertain landscape. Nevertheless, markets seem to have started to front-run an end to lockdown somewhat, which could make the path ahead for risk assets bumpier. Near-term economic growth has contracted meaningfully and we believe the speed of recovery will depend on how long lockdowns last and what happens to the virus as they are eased. The journey out of lockdown is set to be a lengthy and challenging one.

In our opinion, aggressive monetary and fiscal easing will help reduce the growth impact and probably mean we have seen the worst levels for some investments. In this respect, we feel that staying in assets close to policy responses makes sense. As such, the opportunity set looks more obvious in credit than in core rates markets, where low rates, bond purchase programmes and 'safe-haven' qualities are suppressing yields for the time being.

Investment-grade corporates seem the asset class most supported by policy. In our opinion, spreads remain at attractive valuations in terms of both spreads and yields. We expect positive demand to come not only from central bank programmes but also from Asian buyers and many other yield-targeting investors. We believe fundamentals are the uncertainty, given the lack of clarity on how quickly growth will bounce and what impact such will have on corporate earnings. We expect a pick-up in downgrades, including 'fallen angels', but we would highlight that there will likely be a significant increase in dispersion of performance at the sector and issuer levels, with winners and losers making for a rich alpha environment.

On the long side, we continue to favour non-cyclical sectors that have a focus on deleveraging and positive free cashflow generation, with a particular focus on ECB-eligible issuers, given the increasing support of the central bank's programmes. For shorts/underweights, we believe that there will be companies, particularly cyclicals, that will see meaningful credit deterioration and that our analysts will be looking to make sure we avoid. In subordinated paper, we favour taking risk in financials, where we feel AT1 spreads look even more attractive after the sell-off. We are also selectively constructive on corporate hybrids from issuers with solid investment-grade ratings, where we see low extension risk and which offer attractive yields. In a market that has seen a deterioration in liquidity conditions, we believe the need to focus on liquidity has never been so clear. Liquidity should allow us to avoid being a 'price taker' when needing to service cashflows, as well as allowing us to be nimble in moving risk positioning to take advantage of ongoing volatility.

While we believe there is much uncertainty in the near term, the unprecedented volatility we have seen during the first quarter has created many opportunities for strategic investors. Such periods tend to lead to a quite uncorrelated sell-off in markets, which in turn creates alpha potential, both from macro top-down positioning but also from playing the performance dispersion that follows as the market starts to differentiate between the winners and losers. As the uncertainty clears, we would expect positive returns from the asset class but also the potential to generate alpha from active management.

Portfolio Assets Valuation Summary

Portfolio Assets Valuation Summary



TOP 10 HOLDINGS ¹

	(years)
EDF 2 12/49 REGS	0.14
ALVGR 1.301 09/49 REGS	0.13
FISV 1 5/8 07/01/30	0.11
JABHOL 2 1/4 12/39 REGS	0.10
T 3.15 09/04/36	0.10
ABIBB 3.7 04/40 REGS	0.10
MDT 1 3/4 07/02/49	0.08
ISPIM 4 09/29 144A	0.08
DBHNGR 1 3/8 04/40 REGS	0.07
CS 4.194 04/31 144A	0.07

TOP 5 SECTOR OVERWEIGHTS ¹

	(years)
Owned No Guarantee	0.44
Insurance	0.16
Banking	0.15
Technology	0.14
Financial Other	0.07

TOP 5 SECTOR UNDERWEIGHTS ¹

	(years)
Consumer Cyclical	-0.46
Communications	-0.22
Basic Industry	-0.20
Consumer Non-Cyclical	-0.15
Utility Other	-0.09

Note:

1. Spread duration contribution

Portfolio Assets Valuation Summary



PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark
Weighted Interest Rate Duration (yrs)	5.38	5.30
Spread Duration (yrs)	4.93	5.30
Weighted Yield to Worst (%)	1.34	1.14
Total No. of Issues	215	2,647
Weighted Coupon (%)	2.12	1.68
Weighted Rating	A-	A-
Average Position (%)	0.50	0.04
Overall Exposure to Credit (%)	88.14	100.00
Non-Rated Holdings (%) (inc. CDS)	1.06	0.02
High Yield Holdings (%) (inc. CDS)	5.23	0.00
Total Hybrid Exposure + Non-Rated + HY Exposure (%)	11.67	4.18

Note: Defaulted securities are excluded from Spread and Yield calculations

ANNUALISED EX-ANTE TRACKING ERROR

	Limit	Exposure
Annualised Ex-Ante Tracking Error (bps)	250.00	105.50

CDS EXPOSURE

	NAV %	SD
Long	1.07	0.03
Short	-16.08	-0.77
TOTAL	-15.01	-0.74

CURRENCY BREAKDOWN (%)

	Portfolio	Benchmark
EUR	99.95	100.00
USD	0.09	0.00
GBP	-0.05	0.00
TOTAL	100.00	100.00

CDS EXPOSURE

	Limit %	Exposure %
Net Credit Exposure (Bonds plus CDS notional)	125.00	72.05

NET CREDIT EXPOSURE BREAKDOWN

	Exposure %
Bonds	87.06
CDS Protection Sold (nominal value)	1.07
CDS Protection Bought (nominal value)	-16.08

CDS PROTECTION PURCHASED

	Exposure %
Remaining Premium Payable	-0.89

Note:

1. Spread duration contribution

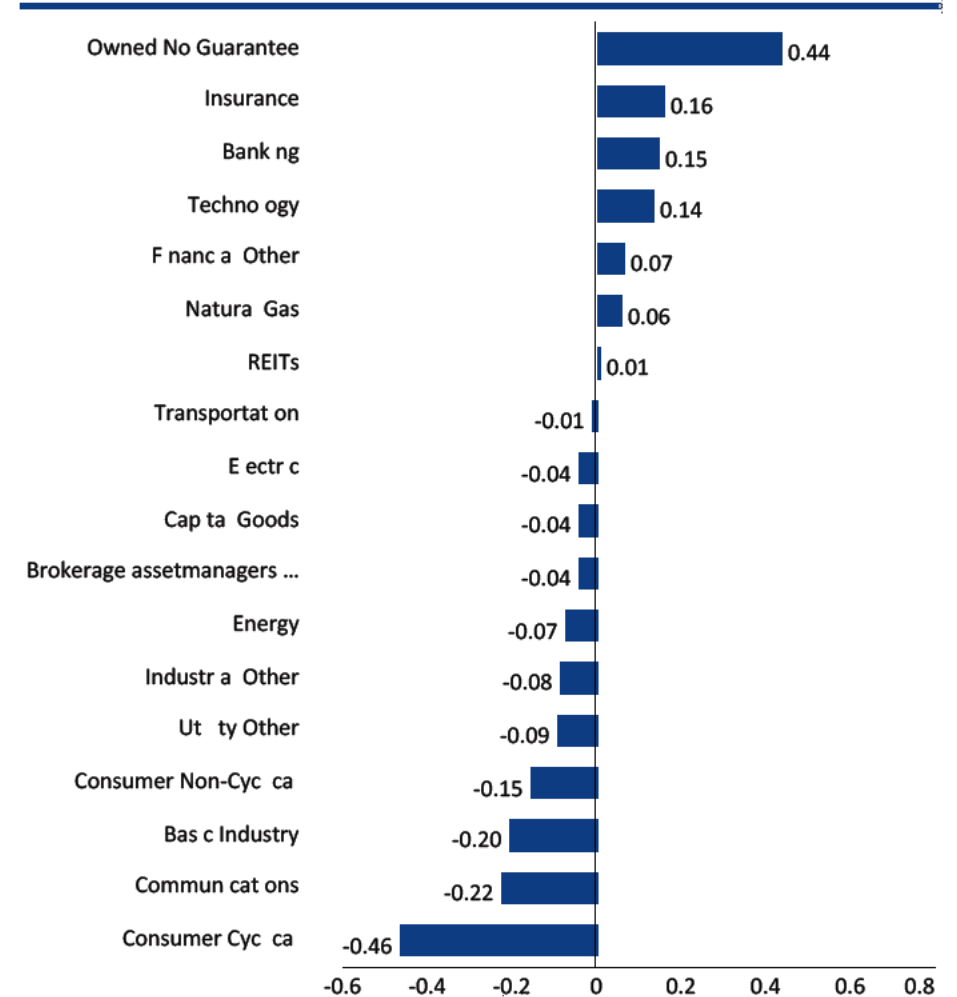
Portfolio Assets Valuation Summary



SECTOR BREAKDOWN¹

	Portofolio	Benchmark
Banking	1.37	1.23
Basic Industry	-0.01	0.19
Brokerage assetmanagers exchanges	0.00	0.04
Capital Goods	0.22	0.26
Communications	0.31	0.53
Consumer Cyclical	0.00	0.46
Consumer Non-Cyclical	0.92	1.07
Electric	0.06	0.09
Energy	0.19	0.26
Finance Companies	0.02	0.02
Financial Other	0.20	0.14
Industrial Other	-0.05	0.03
Insurance	0.43	0.28
Natural Gas	0.16	0.10
Owned No Guarantee	0.44	0.00
REITs	0.19	0.19
Technology	0.35	0.20
Transportation	0.17	0.18
Utility Other	-0.04	0.05
TOTAL	4.93	5.30

RELATIVE SECTOR BREAKDOWN¹



Note:

1. Spread duration contribution

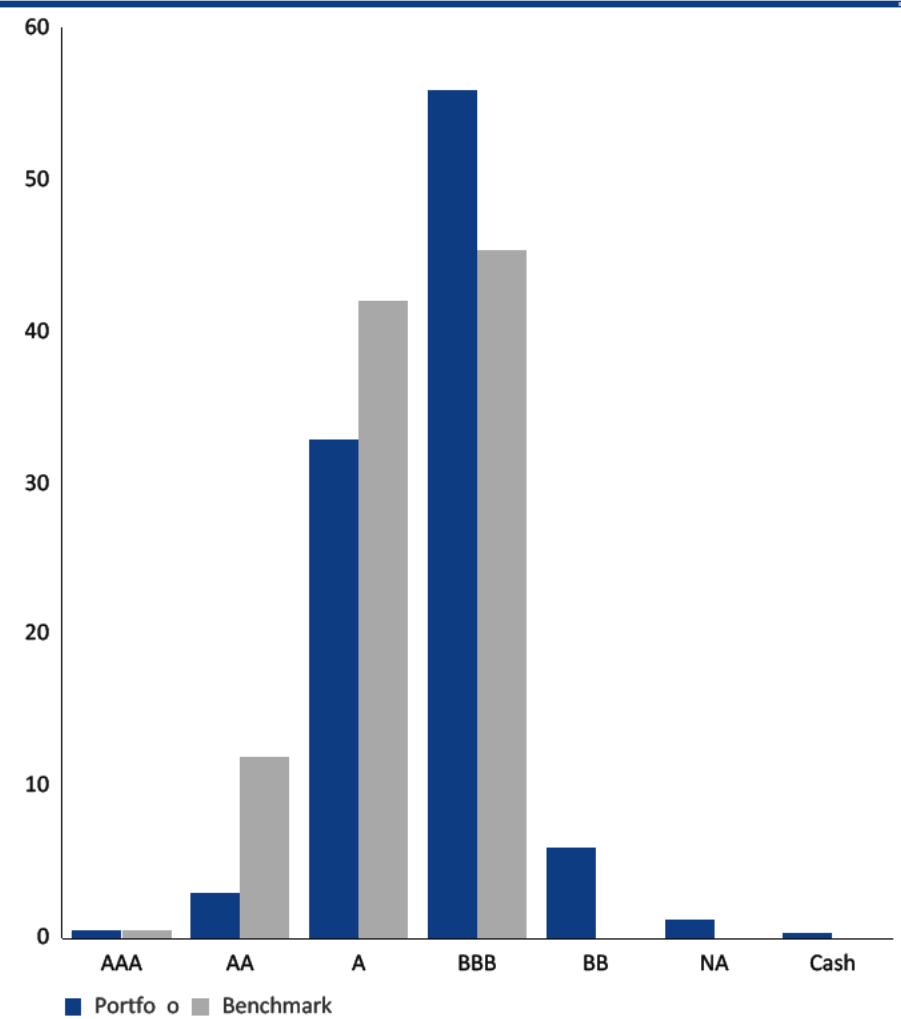
Portfolio Assets Valuation Summary



CREDIT QUALITY BREAKDOWN (%)

	Portfolio	Benchmark
AAA	0.57	0.49
AA	3.05	12.04
A	32.92	42.14
BBB	55.92	45.33
BB	5.95	0.00
NA	1.21	0.00
Cash	0.39	0.00
TOTAL	100.00	100.00

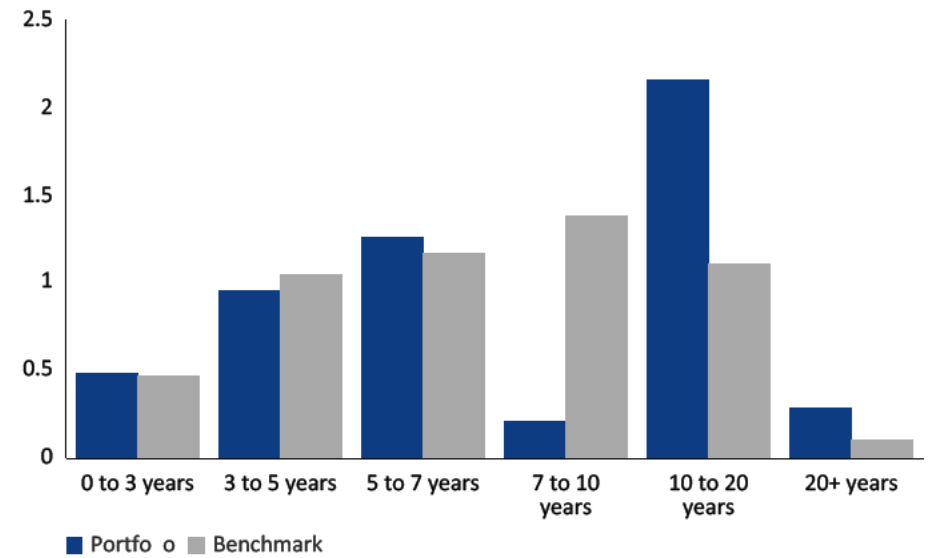
CREDIT QUALITY BREAKDOWN (% NAV)



Portfolio Assets Valuation Summary

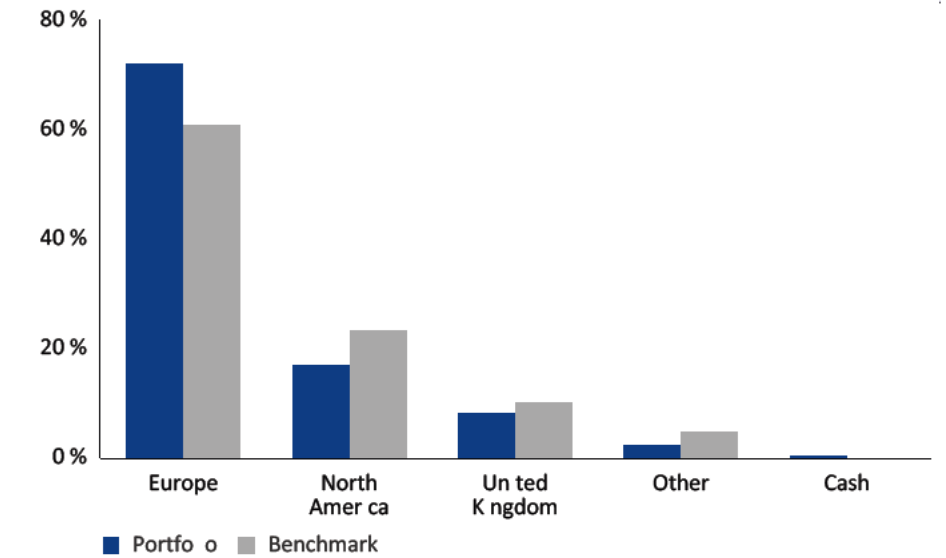


DURATION DISTRIBUTION



(Years)	Portfolio	Benchmark
0 to 3 years	0.49	0.48
3 to 5 years	0.96	1.05
5 to 7 years	1.27	1.17
7 to 10 years	0.21	1.38
10 to 20 years	2.17	1.12
20+ years	0.29	0.10
TOTAL	5.39	5.30

REGIONAL WEIGHTS (%)



(%)	Portfolio	Benchmark
Europe	72.09	61.16
North America	16.90	23.50
United Kingdom	8.35	10.28
Other	2.28	5.07
Cash	0.39	0.00
TOTAL	100.00	100.00

Important Security Information

Important Security Information



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