



A FAVORABLE ENVIRONMENT FOR THE HIGH YIELD MARKET

INTERVIEW



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As economic growth shows signs of overall resilience and interest rates begin to normalise, the high yield market¹ is now supported by a more favourable environment.

Alexis Foret, Head of High Yield at Edmond de Rothschild Asset Management (France), believes that bonds in this segment – with their attractive yields and rising average² coupons – have all the characteristics to cater to investors' every need.

DOES THE CURRENT MARKET ENVIRONMENT SERVE TO PROMOTE THE HIGH YIELD SEGMENT?

The segment has endured several challenging years, consecutively. First, on the back of the health crisis, followed by the Russia-Ukraine conflict, and lastly, because of rising interest rates aimed at curbing inflationary pressure.

The current market proves more buoyant. Once again, interest rates are trending downwards, and gradually expected to normalise. High yield issuers should also demonstrate resilience, assuming confirmation of the current soft landing³ scenario.

Having steered clear of the credit market for a sustained period, such issuers fully prepared for debt wall refinancing. Gross issuance, which declined to €15 billion in 2022, resurged to €45 billion and €75 billion in 2023 and 2024 respectively (versus the historic figure of €80 billion during a normal year)⁴. Going forward, in 2025, we expect the primary market⁵ to remain active. This trend towards refinancing has triggered a shift in bond maturities – from 2024-2025 to 2029-2030 – which may ease the asset class risk.

Moreover, despite rising to around 3%, the level of default rates⁶ is still moderate and controlled (except in a potential recession which would significantly penalise the high yield market). Admittedly, French companies such as Altice, Casino and Atos⁷ were forced to restructure their debt. That said, their challenges were specific to their own situation and had not sparked any enduring nor unpleasant surprises for the high yield market as a whole.

*The identity of the manager presented in this document may change during the product's life.

EXPLORING THE TRENDS IN RETURNS: HOW DO YIELDS EVOLVE?

As things stand, the overall yield on high yield bonds is 5.5%, i.e., 1% above average over the last decade⁸. The average coupon rises as companies start refinancing. As a result, it stood at 6.5%⁹ for all the issues reported since early 2024.

What's more, high yield bonds have a relatively low sensitivity to interest rates of approximately 3 years, which falls below that of investment grade bonds¹⁰.

For all the above reasons, exposure to the high yield segment tends to rise in asset allocations, particularly as investors must identify alternatives to money market funds with increasingly less attractive returns due to interest rate cuts. In particular, there is a keen interest in bond carry strategies. Capitalising on the current high yields, maturity funds have amassed €15 billion since the start of the year (all ratings combined), on top of the €25 billion already collected in 2023¹¹.

HOW DO YOU DIRECT YOUR INVESTMENT STRATEGIES?

Always remember that the high yield universe is niche, with around 300 issuers representing an overall total debt of 400 billion in euros¹². Keep in mind that investment in this market calls for in-depth credit analysis. Such rated companies are more vulnerable to economic cycles, owing to their relatively small size and high level of debt when compared to investment grade credit.

Regarding our dated funds, we incorporate a different structure for our "Millesima" portfolios in an effort to factor in market developments. With this in mind, the EdR SICAV Millesima Select 2028 fund has 70% exposure to investment grade bonds and 30% to high yield bonds. As of 30 september 2024 the fund's yield is 3.7%¹³.

Introduced as recently as September this year, the EdR SICAV Millesima 2030 fund is 80% invested in the high yield segment and includes qualitative bias and BB ratings accounting for 50%. The fund's yield is 5.1%¹⁴.

Our exclusively pan-European High Yield strategy, namely the Edmond de Rothschild Fund Euro High Yield, is geared towards Europe's corporate bond segment with a focus on BB/B ratings and opportunistic exposure to the CCC segment. As of today, the fund's yield

is 6.0%¹⁵. Looking to the medium term, this strategy also leverages proactive risk management (credit and sectors) and strong involvement in the market, in search of marginal yield on top of the current yield.

From a sector standpoint, considerable performance discrepancies are observed which we recognise in our bond strategies across the board, whether dated or short-dated.

Against this backdrop, we stepped up our exposure to real estate, which was adversely affected by the rising interest rates of 2022. The expected interest rate cuts, and ensuing actions, helped repurpose this investment sub-universe as it regained its defensive sector status. Still discounted, we consider the sector's performance potential yet to be untapped, as some issuers could see their ratings upgraded.

On top of this, we are exposed to the telecoms and pharma industries. By their very nature, both sectors enjoy less exposure to the economic cycle. We are paying close attention to new-build real estate sectors (e.g., materials, chemicals) before witnessing a gradual rotation. They are presently positioned at the bottom of the cycle, but could gain from a real estate upturn in the quarters ahead.

1. High Yield: Speculative bonds with a greater risk of issuer default and a rating of less than BBB- by Standard & Poor's or equivalent.
2. Coupons are period interest payments made to bondholders by a bond issuer, and are generally expressed as a percentage of the bond's face value.
3. A soft landing refers to an economy that slows without causing a recession, thereby keeping inflation stable and avoiding large-scale disruption.
4. Source: Bloomberg, Edmond de Rothschild. Data as at 30/09/2024.
5. The primary market is the financial sector with its new securities, including shares and bonds, which are issued and sold to investors for the first time.
6. Source: Bloomberg, Edmond de Rothschild. Data as at 30/09/2024.
7. Information about companies should not be construed as constituting the Edmond de Rothschild Group's opinion on the projected change in the value of said companies or, where applicable, the projected change in the price of the financial instruments that they issue. This information does not constitute a recommendation to buy or sell these securities.
8. Source: Bloomberg, Edmond de Rothschild. Data as at 30/09/2024. Past performance is neither indicative of future performance nor constant over time.
9. Source: Bloomberg, Edmond de Rothschild. Data as at 30/09/2024.
10. The latter represent debt securities issued by borrowers considered financially robust, with a lesser likelihood of defaulting. As such, rating agencies award them a high credit rating.
11. Source: Bloomberg, Edmond de Rothschild.
12. Source: Bloomberg, Edmond de Rothschild. Data as at 30/09/2024.
13. Source: Edmond de Rothschild. Data as at 31/10/2024. Past performance is neither indicative of future performance nor constant over time.
14. Source: Edmond de Rothschild. Data as at 31/10/2024. Past performance is neither indicative of future performance nor constant over time.
15. Source: Edmond de Rothschild. Data as at 31/10/2024. Past performance is neither indicative of future performance nor constant over time.

DISCLAIMER

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EdR SICAV Millesima 2030 is a sub-fund of the French SICAV approved by the AMF and authorized for marketing in France, Switzerland, Belgium, Spain, Germany, Portugal, Italy and Luxembourg.

MAIN INVESTMENT RISKS

RISK INDICATOR:

1	2	3	4	5	6	7
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The risk indicator rates this fund on a scale of 1 to 7.

This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you. This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund.

Risk of capital loss: The Fund does not guarantee or protect the capital invested, and there is a risk that the capital invested will not be returned in full. Unitholders are advised that the performance objective is provided for information only and does not in any way constitute an obligation for the management company to provide results.

Credit risk: If a credit event occurs (for example, a significant widening of the remuneration margin of an issuer compared to a State bond with the same maturity), or a default or downgrading of the quality of bond issuers (for example, a downgrading of their rating), the value of the debt securities in which the Fund is invested may drop, and cause the Fund's net asset value to fall. The use of high-yield securities up to a 100% limit of the Fund's net assets may result in sharper falls in net asset value, and such securities can

present a greater risk of default. This Fund must therefore be considered as speculative, and is specifically intended for investors who are conscious of the risks inherent in investing in securities whose rating is low or non-existent.

Credit risk from investing in speculative securities: the fund may invest in government and corporate rated as non investment grade by a rating agency (i.e. rated below BBB- by Standards and Poor's or an equivalent rating from another independent agency) or considered as equivalent by our investment company. These issues are so-called speculative debt securities with a higher risk of issuer default. The fund must be viewed as partly speculative and concerns in particular investors who are aware of the risks inherent in these securities. Consequently, investing in high yield securities (speculative securities which have a higher default risk) may entail a bigger fall in the fund's net asset value.

Interest rate risk: Interest-rate risk is the risk that bond-market rates may increase, thereby causing bond prices to fall and reducing the Fund's net asset value. A rise in interest rates may negatively affect performance for an indefinite period; similarly, if the portfolio's sensitivity is negative, a drop in interest rates may have a negative impact on performance for an unspecified period. This phenomenon may cause the net asset value to fall. Such interest-rate risk may cause the net asset value to fall.

DISCLAIMER

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MAIN INVESTMENT RISKS

RISK INDICATOR:

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The subfund is rated in category 3 (A and I shares).

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The risks described below are not exhaustive: Capital loss risk: As the Subfund in this document does not have any guarantee or protection, the capital initially invested might not be restituted in full.

Discretionary management risk: Discretionary

management depends on anticipating future trends on equity and bond markets. There is a risk that the Subfund might not always be invested in the best performing markets. The Subfund's performance may not meet its targets.

Credit risk: Valuations of debt securities and other financial instruments are influenced by the issuing company's credit rating. As a result, their capital value fluctuates according to the market's perception of the financial health of their issuers and this may entail a fall in the fund's NAV if the outlook turns negative. Credit risk corresponds to the risk that an issuer of bonds or money market instruments might not be able to honour his commitments.

Interest rate risk: Funds holding debt securities and money market instruments are exposed to fluctuations in interest rates. The risk is as follows: rising interest rates cause bond valuations to fall and thus a decline in the fund's net asset valuation.

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MANAGEMENT COMPANY AND GLOBAL DISTRIBUTOR

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

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Public limited company with a Management Board and Supervisory Board and a capital of 11,033,769 euros

AMF approval number GP 04000015 - 332.652.536 R.C.S. Paris

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GLOBAL DISTRIBUTOR & INVESTMENT MANAGER

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