



Approaching fixed-income markets with flexibility

In an uncertain fixed-income environment, generating returns while avoiding excessive exposure to interest rate risk is a balancing act. How can this tricky situation be optimally handled? Focus on R-co Euro Crédit's investment strategy.



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R-co Euro Crédit, the flagship fund of Rothschild & Co's fixed income range, was created nearly 20 years ago and is focused on maximising the various investment opportunities in the euro-denominated fixed-income segment while ensuring that risks are strictly assessed.

Through the active management of modified duration and by favouring securities with intermediate maturities, the portfolio management team intends to protect itself from a steepening of the yield curve. For instance, this approach allowed the fund to outperform its index during periods of rate increases. In addition, the use of dedicated control tools allows for rigorous monitoring and analysis of the three main risk factors in the asset class (market risk, credit risk and liquidity risk).

“The approach allows the fund to outperform its index during periods of increasing rates...”

The methodology developed aims to define the portfolio's risk exposure by assessing an adverse scenario. This model thus identifies the maximum value at risk in the event of this scenario occurring. Monitoring this indicator in real time allows to make these estimates at any given time and after each transaction. Diversification is another essential feature of the management process for mitigating the impact of a specific event or individual risk on the fund's performance. All bonds are also assigned a rating to determine their liquidity under different market configurations.

Finally, managing portfolio volatility involves thinking outside the box and focusing on securities that are less followed by market participants with often smaller issuances. This endeavour is only made possible thanks to meticulous teamwork. This approach helps to identify “cases” with a satisfactory risk return profile. Detecting securities that can add value to the portfolio is the core of R-co Euro Crédit's investment process.

Once these data are integrated, the managers implement a conviction-based approach relying on strong medium-term strategic axes with



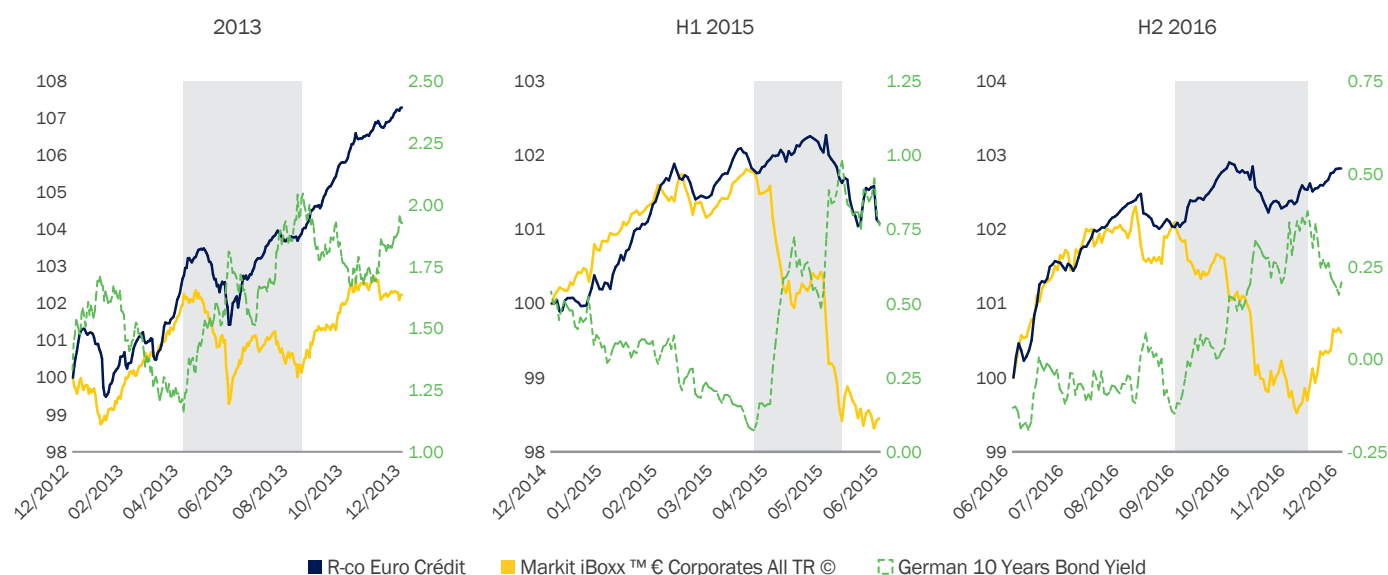
the objective of delivering performance in any environment. The portfolio's composition may therefore deviate significantly from the benchmark with a clear positioning on certain themes or sectors. While benefiting from a high degree of flexibility, shifts in the portfolio remain nonetheless progressive.

While always in the search of convexity, R-co Euro Crédit is mainly invested in private corporate bonds. With at least 80% of Investment Grade securities, its allocation is supplemented by exposure to High Yield and unrated bonds and includes "satellite" strategies (hybrid or subordinated bonds) to capture risk premiums and enhance the portfolio's yield. With investments in recent years mainly in the "crossover" segment, the portfolio manager is now seeking to improve issuer credit quality. The 200+ lines selected from 170 companies ensure its diversification.

"The managers implement a conviction-based approach relying on strong medium-term strategic axes with the objective of delivering performance in any environment..."

Rothschild & Co's fixed-income team consists of eleven investment professionals with an average of fifteen years' experience and has more than €7.5 billion of assets under management. The team applies its expertise through a range of products that cover the main fixed-income segments, thus offering a wide array of investment solutions. ■

Comparative performances of R-co Euro Crédit and its benchmark over the last three periods of rising markets



Source: Rothschild & Co Asset Management Europe, 31/05/2019

Performance	2019	2018	2017	2016	2015	2014	3 years	5 years	10 years	1-year volatility
R-co Euro Cr�dit	2.59%	-3.58%	4.39%	5.05%	-1.17%	4.84%	5.75%	7.82%	68.57%	2.18%
Markit iBoxx TM � Corporates All TR � ⁽¹⁾	3.82%	-1.29%	2.37%	4.72%	-0.66%	8.24%	6.60%	13.33%	61.34%	1.75%

Source: Rothschild & Co Asset Management Europe, 31/05/2019

(1) Benchmark index



Recommended investement period: 3 years

The risk level of this UCITS is 3 (including volatility between 2% and 5%) and mainly reflects its positioning on private debt products while being sensitive between 0 and +8. The historical data used to calculate this indicator may not be a reliable indication of the future risk profile of the UCITS. The risk category associated with the UCITS is not guaranteed and may evolve over time, both upwards and downwards. The lowest category does not

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