Rothschild & Co
Asset Management

Fixed Income Quarterly Strategy

APRIL 24

→ With US inflation having outstripped expectations over the past three months, monetary easing postponed to the second half of the year, and risk premiums well below historical averages, investors' patience has been put to the test.

“ We are data-dependent and not Fed-dependent ”

Christine Lagarde

The first quarter 2024 featured many adjustments on the fixed-income markets. Early in the year, the consensus was pricing in six or seven US key rate cuts in 2024, reinforced in its belief, among other things, by rather accommodating language from the Fed chair[(1)]. This view soon collided with above-expectation inflation, as monthly CPI[(2)] figures surpassed 0.4 % in February and March[(3)]. After bottoming out early in the year, bond yields accordingly rose back throughout the quarter.

In Europe, key rate cuts had been priced in for as early as March, but it’s now looking more like June, despite job market-driven services inflation at 4%[(4)]. The ECB president’s insistence that it was

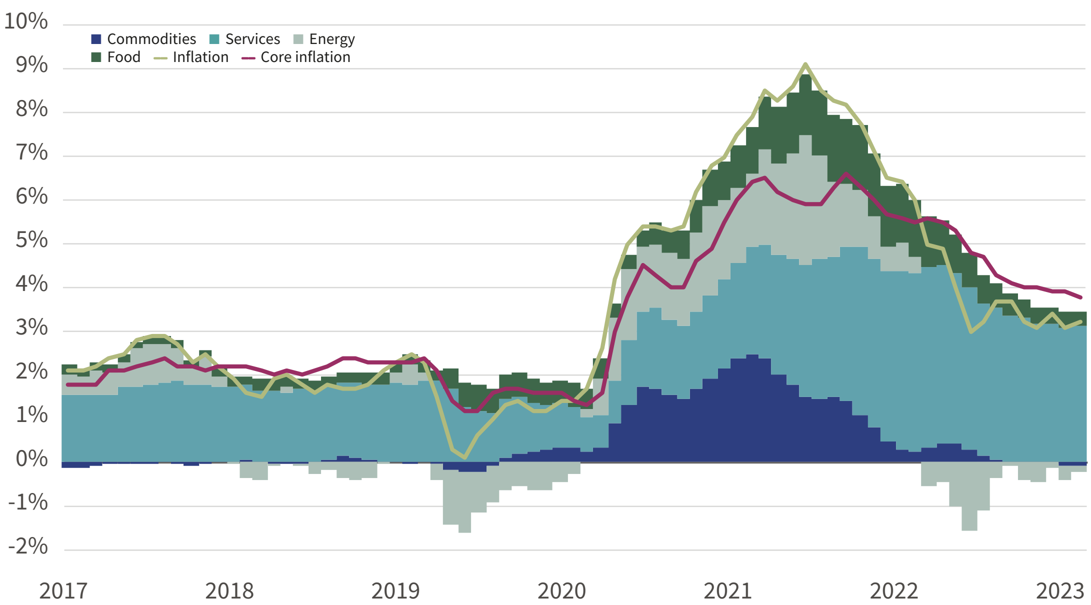
(1) Source: Bloomberg, April 2024.

(2) Consumer Price Index.

(3) Source: Bloomberg, Rothschild & Co Asset Management, April 2024.

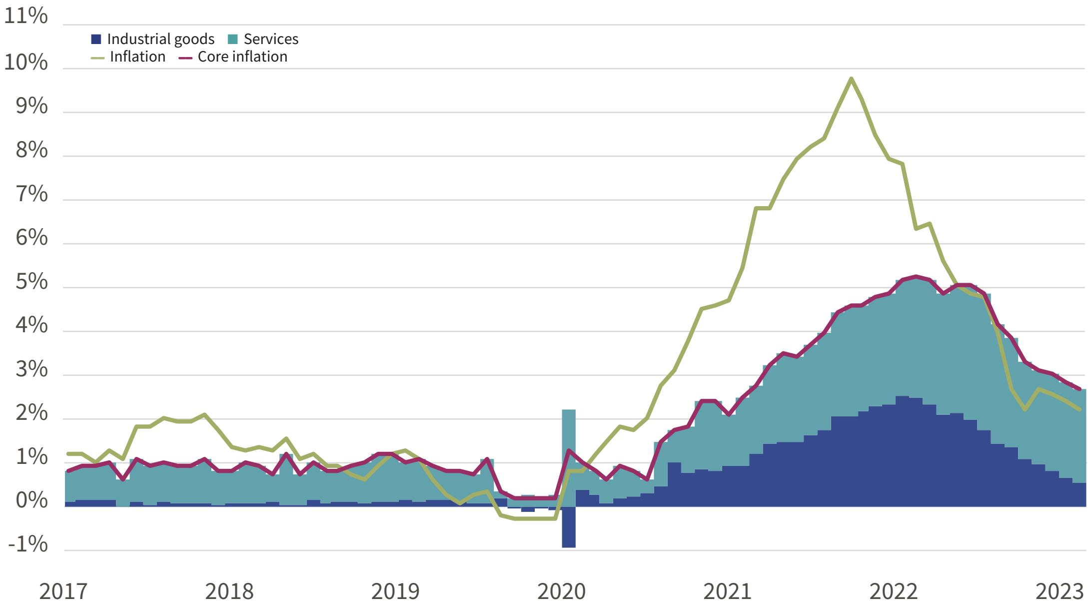
(4) Source: European Central Bank, Bloomberg, Rothschild & Co Asset Management, April 2024.

United States – CPI Inflation indices



Sources: Bureau of Labor Statistics, Rothschild & Co Asset Management – 28/03/2024.

Eurozone – Total inflation and detailed Core inflation



Sources: Eurostats, Rothschild & Co Asset Management – 28/03/2024.

“data-dependent” and not “Fed-dependent” is even causing some investors to ponder the possibility of an uncoupling in monetary policies between the two central banks. Under this scenario, the ECB could take action before the Fed, which would be surprising but not unprecedented.

Everything is a matter of timing

On the credit market, take note of the resilience of risky assets, driven mainly by positive surprises on growth. Generally speaking, all of the market has fared rather well, driven by momentum on the real-estate market. Some cracks have nonetheless emerged in the shakiest corner of the market, with the return of idiosyncratic risk, illustrated by such recent events as SFR/Altice, Ardagh Glass, Atos and Intrum. In just one week, the CCC[5] segment’s year-to-date gains were wiped out. Such cracks generally point to deeper fault lines, as idiosyncratic risks tend to spread[6] throughout the market.

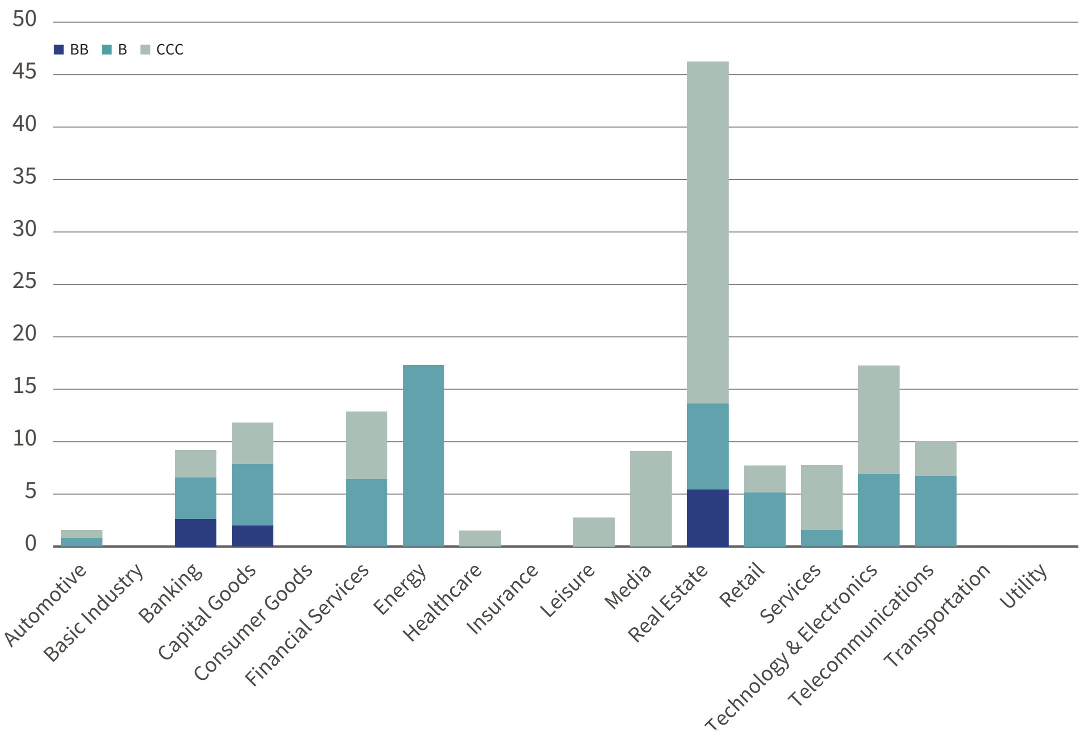
(5) C-rated debt securities are the lowest-rated category. They are generally in default, with limited potential for recovery of principal and interest.

(6) The difference in yield between a bond and a loan of equivalent maturity considered to be ‘risk-free’.

Meanwhile, risk premiums are currently below their historical averages of the past 10 years, particularly in the BB and B[7] segments. While good news for borrowers, one wonders how sustainable this configuration is, and what its potential impact would be in the event of a market turnaround. We have also seen a compression of spreads between the BB and BBB segments, as well as between B and BB. The latter has heightened the market's vulnerability, particularly in light of increased volatility and idiosyncratic risks.

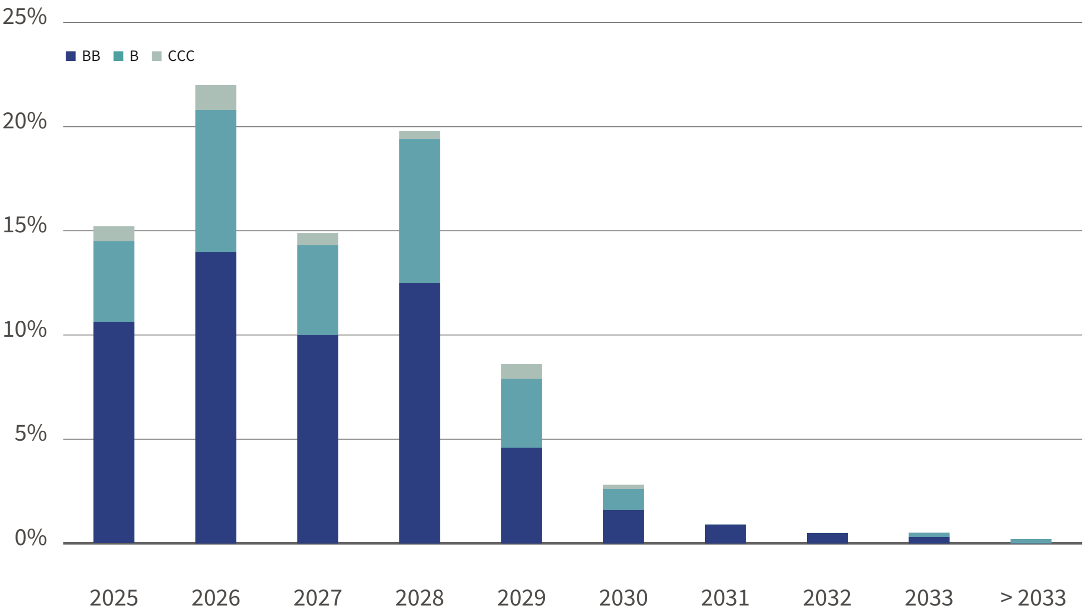
(7) Source: Bloomberg, April 2024.

% of the sector with a risk premium 2 times higher than the index average



Sources: ICE, Bloomberg, Rothschild & Co Asset Management – 01/2024.

Maturity of the Euro High Yield market by rating
as a % of the market, €412bn at 20/10/2023



Sources: ICE, Bloomberg, Rothschild & Co Asset Management – 01/2024.

Regarding High Yield[8], managing the 2026 debt wall remains a major concern. So far this year, issuance has totalled almost 35 billion euros on the European market[9]. Moreover, the market has been propped up by negative net supply (-16 billion euros in the first quarter) and the good performance of real-estate hybrids, a segment that had underperformed drastically in 2023. The refinancing window is therefore open, but for how long?

How we are positioned on the credit markets

Against this backdrop, we are raising credit quality in the portfolios and keeping a close watch on refinancing risks. For example, we are reducing our exposure to High Yield and corporate hybrids. Regarding Investment Grade[10], we are seeking out opportunities in A ratings or in non-cyclical, upper-BBB debt.

(8) High-yield bonds are issued by companies or governments with a high credit risk. Their financial rating is below BBB- on the Standard & Poor's scale.

(9) Source: Bloomberg, April 2024.

(10) Debt securities issued by companies or governments rated between AAA and BBB- by Standard & Poor's.

Barring a downturn in the growth outlook, the credit markets should hold up, as they have so far this year, to rising interest rates. However, the combination of narrow spreads and a less favourable political context in the US gives us pause. Inflation looks unlikely to return to the target without a greater negative impact on the economy. And yet the consensus is betting on a positive scenario.

We don't think taking this risk makes sense. The compression of risk premiums between the various rating categories helps enhance credit quality without undermining the portfolios' actuarial yield. For example, there is almost no spread any
more between cyclical and non-cyclical companies. Opportunity cost is therefore almost non-existent. However, if the best-case scenario does not come to pass, we will have leeway for investing.

Our 9th and 10th generation of maturity funds are still open for subscription

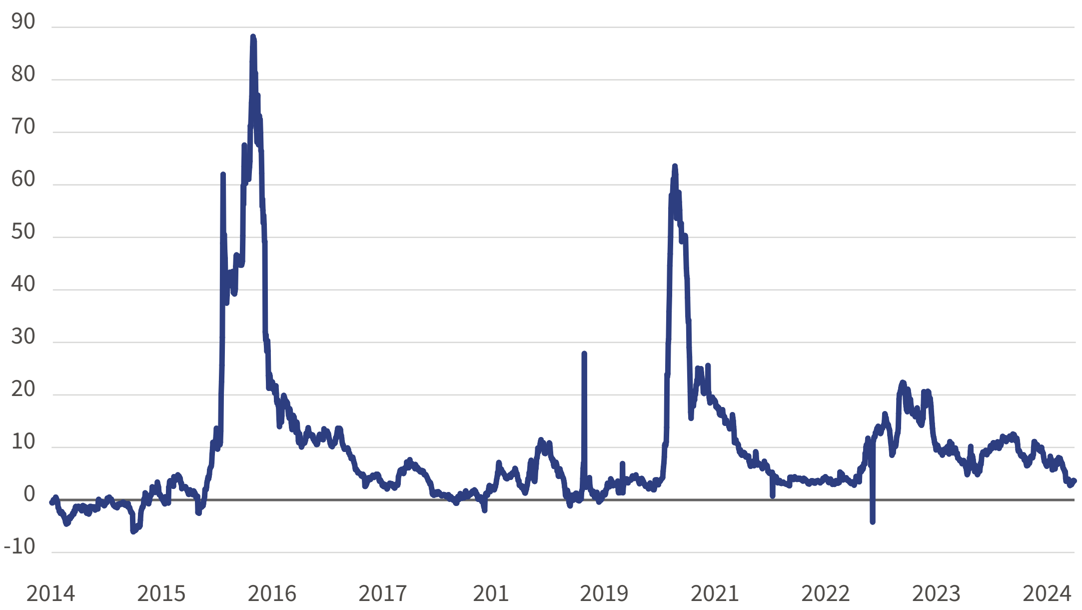
R-co Target 2027 HY is a credit fund based on a bond carry to maturity strategy, invested in High Yield(1) quality bonds denominated in euro. This buy and hold(2) strategy is based on a selection of securities with an average maturity between January and December 2027. Based on the same management principles, R-co Target 2029 IG invests in Investment Grade(3) bonds denominated in euro from all geographical regions. The selected securities mature between January and December 2029. These two funds will be marketed until 31 December 2024

(1) High yield bonds are issued by companies or governments with a high credit risk. Their financial rating is below BBB- on the Standard & Poor's scale.
(2 Investment strategy consisting of acquiring securities and holding them until maturity.
(3) Debt securities issued by companies or governments rated between AAA and BBB on the Standard & Poor's scale.

Spread difference between financials and corporates
in pb

Sources: Bloomberg, Rothschild & Co Asset Management – 28/03/2024.

Spread difference between cyclical and non-cyclical corporates
in pb



Sources: Bloomberg, Rothschild & Co Asset Management – 28/03/2024.

Our fund selection

R-co Conviction Credit Euro

SRI risk : 1 **2** 3 4 5 6 7
Lower risk — Higher risk

EURO-DENOMINATED INVESTMENT GRADE BONDS
Inception date: 08/11/2019 | Recommended investment period: 3 years | Article 8 SFDR

The flagship fund in our bond range, R-co Conviction Credit Euro offers active and opportunistic management of the euro-denominated bond market. Its core portfolio consists of securities, complemented by satellite strategies and a careful selection of high yield and non-rated bonds. The investment strategy aims at a constant optimisation between yield and maturity as well as a careful monitoring of the portfolio's sensitivity.

Performance and risk indicator

	year to date	2023	2022	2021	2020	2019	1 year volatility
R-co Conviction Credit Euro C EUR	0.95%	9.35%	-13.17%	1.00%	2.72%	5.17%	3.21%
R-co Conviction Credit Euro IC EUR	1.04%	9.74%	-12.86%	1.37%	3.09%	5.55%	3.21%
Markit iBoxx™ € Corporates	*0.36%*	*5.07%*	*-14.17%*	*-1.08%*	*2.73%*	*6.29%*	*4.01%*

Source: Rothschild & Co Asset Management. 28/03/2024.

R-co Target 2029 IG

SRI risk : 1 **2** 3 4 5 6 7
Lower risk — Higher risk

MATURITY FUNDS | EURO-DENOMINATED INVESTMENT GRADE BONDS
Inception date: 28/09/2023 | Recommended investment period: until 31/12/2029 | Article 8 SFDR

A credit fund based on a bond-carrying strategy until maturity, R-co Target 2029 IG invests in Investment Grade bonds from all geographical areas. This strategy is based on a selection of securities with an average maturity between January and December 2029 while benefiting from active management allowing for arbitrage in order to control the portfolio's risk level or seize market opportunities. The marketing period runs until 31 December 2024.

Yield to maturity: 4.0%[(1)]

(1) Source: Rothschild & Co Asset Management, 28/03/2024.

SRI risk :

1 2 **3** 4 5 6 7

Lower risk Higher risk

R-co Thematic Target 2027 HY

MATURITY FUND | EURO-DENOMINATED HIGH YIELD BONDS

Inception date: 24/07/2023 | Recommended investment period: until 31/12/2027 | Article 8 SFDR

R-co Thematic Target 2027 HY is a high-yield bond maturity fund that invests in euro-denominated bonds from all geographical areas. The selected securities have an average maturity between January and December 2027. The investment approach includes active, agile and disciplined management, making it possible to seize opportunities, arbitrate and even sell if the risk of default becomes too great. The marketing period runs until 1 September 2023.

Yield to maturity: 5.97%

Source: Rothschild & Co Asset Management, 28/03/2024.

SRI risk :

1 **2** 3 4 5 6 7

Lower risk Higher risk

R-co Valor Bond Opportunities

GLOBAL BONDS | CARTE BLANCHE

Inception date: 28/08/2019 | Recommended investment period: over 3 years | Article 8 SFDR

R-co Valor Bond Opportunities is an global bond fund with a «carte blanche» approach means that it can be invested in all segments of the bond market, across ratings, maturities and in geographical areas. Thanks to its flexibility and based on the analysis of growth, inflation and monetary policy outlooks, this investment solution aims to take advantage of the diversification of fixed income products by combining satellite strategies around a core credit portfolio.

Performance and risk indicator

	Year to date	2023	2022	2021	2020	Since inception	1 year volatility
R-co Valor Bond Opportunities C EUR	0.76%	9.56%	-9.71%	3.66%	6.74%	11.71%	4.31%
ESTER Capitalisé + 2.585%	*1.62%*	*5.91%*	*2.90%*	*2.50%*	*2.51%*	*17.35%*	*0.06%*
R-co Valor Bond Opportunities I EUR	0.86%	10.06%	-9.31%	4.14%	7.01%	13.84%	4.31%
ESTER Capitalisé + 3.035%	*1.73%*	*6.37%*	*3.34%*	*2.95%*	*2.96%*	*19.72%*	*0.06%*

Source: Rothschild & Co Asset Management. 28/03/2024.

R-co Conviction Credit Euro

We have classified this product as risk class 2 out of 7, which is a low riskclass and mainly reflects its positioning on private debt products while having a sensitivity between 0 and +8. In other words, the potential losses associated with the future performance of the product are at a low level and, should market conditions deteriorate, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for 3 years, otherwise the actual risk may be very differentand you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, counterparty risk, performance risk, risk of capital loss, risk related to the use of derivatives, risk related to temporary acquisitions and sales of securities, specific risk related to the use of complex subordinated bonds (bonds with a maturity of less than one year) of securities, specific risk related to the use of complex subordinated bonds (contingent convertible bonds, so-called «CoCs»).

R-co Target 2029 IG

Recommended investment period: until 31/12/2029.

Risk indicator: 2/7.

The synthetic risk indicator is used to assess the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. The risk indicator assumes that you hold the product until 31 December 2029. The actual risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 2 out of 7, which is a low risk class and mainly reflects its positioning on credit risk and fixed-income products with a maximum residual maturity of 31 December 2029. In other words, the potential losses linked to the future performance of the product are low and, if the situation were to deteriorate on the markets, it is very unlikely that our ability to pay you would be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment.

R-co Target 2027 HY

Recommended investment period: until 31/12/2027.

Risk indicator: 3/7.

The synthetic risk indicator is used to assess the level of risk of this product compared with others. It indicates the probability that this product will incur losses in the event of market movements or our inability to pay you. The risk indicator assumes that you keep the product until 31 December 2027. The actual risk may be very different if you opt to exit before maturity, and you may get less in return. We have classified this product in risk class 3 out of 7, which is between low and medium risk, and mainly reflects its positioning on credit risk and fixed-income products with a maximum residual maturity of 31 December 2027. In other words, the potential losses associated with the future performance of the product are low to medium and, if the situation were to deteriorate on the markets, it is unlikely that our ability to pay you would be affected. As this product does not provide protection against market fluctuations or a capital guarantee, you could lose all or part of your investment.

R-co Valor Bond Opportunities

We have classified this product in risk class 2 out of 7, which is a low risk class and mainly reflects a discretionary management policy that exposes the portfolio in a diversified way to the interest rate markets over the medium term. In other words, the potential losses related to the future performance of the product are low and, if the situation were to deteriorate in the markets, it is very unlikely that our ability to pay you would be affected. The risk indicator assumes that you hold the product for 3 years, otherwise the actual risk may be very different and you may get less in return.

Main risks: Discretionary management risk, interest rate risk, credit risk, credit risk («speculative» or «high yield»), counterparty risk, performance risk, risk of loss of capital, risk linked to the use of derivatives, specific risk linked to the use of complex subordinated bonds (convertible contingent bonds known as «CoCos»), exchange rate risk, equity risk, risk linked to exposure to non-OECD countries (including emerging countries).

Before investing, it is imperative to carefully read the PRIIPS DIC and the prospectus of the UCI, and more particularly its section on risks and fees, available on the Rothschild & Co Asset Management website: am.eu.rothschildandco.com

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As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors.

Our development is focused on a range of open-ended funds, marketed under five strong brands: Conviction, Valor, Thematic, 4Change and OPAL, leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 31 billion euros and employ nearly 160 people.

More information at: www.am.eu.rothschildandco.com

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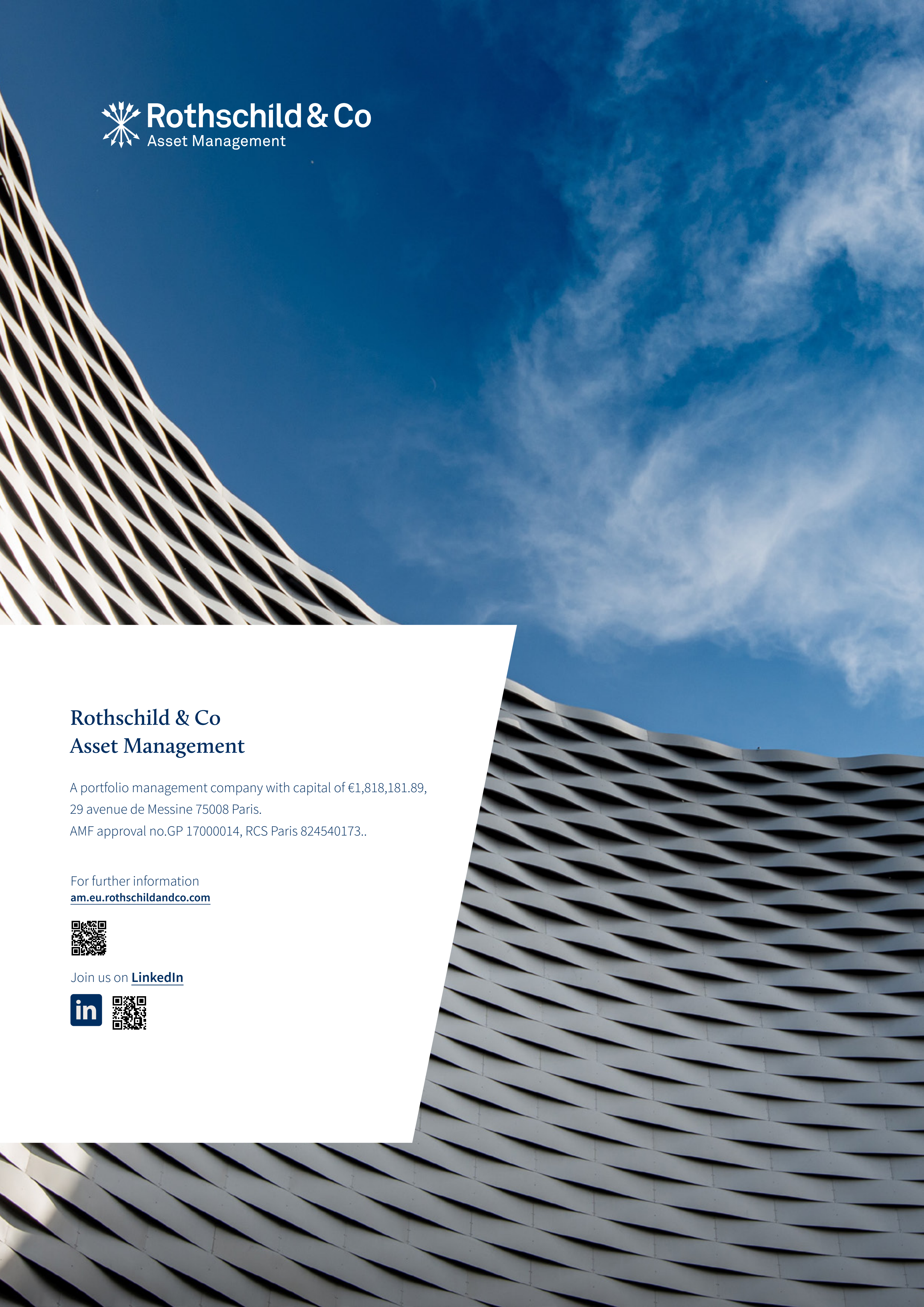

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A portfolio management company with capital of €1,818,181.89,
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