EDMOND DE ROTHSCHILD

ASSET MANAGEMENT

EDR SICAV - FINANCIAL BONDS

EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.

AS OF 31 OCTOBER 2023

EDMOND DE ROTHSCHILD

EDR SICAV – FINANCIAL BONDS

PERFORMANCE (I EUR Share)

	Fund	Index[1]	Out/Under perf.
MTD	+0,28%	+0,39%	-0,12%
YTD	+2,24%	+1,83%	+0,40%
1Y	+5,59%	+3,88%	+1,72%
3Y annua.	-0,90%	-3,32%	+2,42%
5Y annua.	+1,03%	-0,80%	+1,83%
2022	-10,75%	-11,99%	+1,24%
2021	+2,37%	-0,48%	+2,85%
2020	+3,00%	+2,22%	+0,78%
Since inc. annua.[2]	+3,24%	+2,14%	+1,09%

CARACTERISTICS

	Fund	Index[1]
AUM (€m)	1 786	
Yield to Call (%)	8,6	5,5[4]
Modified Dur.	3,1	3,5
Spread Duration	2,8	3,8
Average Rating	BB+	BBB+
Average Spread (Bps)	448	178
Sustainability		
SFDR	Article 8	
ESG Rating[3]	11,20	11,08

MARKET COMMENT

Steepening remains the broad trend, but we have seen diverging sentiment between Eurozone and US rates this month. Euro rates trended lower following ECB's pause in rate hike and multiple weak economic signals. On the other side, the rocksolid US economy, combined with higher energy prices following the tensions in the middle East generated upwards pressure on US curve with a clearer steepening.

At the end of the month, rates effects created a divergence of performance between CoCo € (+0.67%) and CoCo $ (-0.58%). On other asset classes, low spread papers outperformed, like grandfathered insurance, low beta Tier 2 from both banks and insurance; while less liquid higher beta bonds marked a pause after a significant YTD outperformance.

Nevertheless, more liquid € high beta AT1 bonds did much better, since RBI, Commerzbank, Deutsche Bank or Sabadell were the clear outperformers of the month helped by once again solid results and strong organic capital generation. On the other end of the spectrum, Italian AT1s underperformed following regained volatility of the BTP-Bund, UK names suffered from relatively disappointing results, especially on the margin front, and SocGen, despite delivering a perfect on its AT1 call policy, keeps performing as a high beta name in the $ AT1 market. Regarding insurance, French insurer Macif's RT1 continues to lag (-2.1pts) without any specific newsflow but pushes the whole RT1 segment down (-0.61%).

Overall, Q3 results season remains sound, supply was light due to blackout and SocGen announced the call of its 7.875% c.12/23 AT1.

1: Until 30/06/2021: 100% ICE BofA Euro Financial Index, Since 01/07/2021: 80% ICE BofA Euro Fin. Index + 20% ICE BofA Coco Index
2: 04/04/2011 : change in legal structure (inception 10/03/2008)
3: Internal/MSCI scores (/20, 20 being the best). vs. Investment universe
4: Yield to Worst

FOCUS OF THE MONTH

Q3-23 earnings: still not peak profitability

Overall, Q3-23 earnings once more beat consensus and led to multiple guidance upgrades as well as upwards consensus revisions for 2024. Biggest driver of positive surprises remains revenues, with margins still up and deposit beta in most countries that barely moves. UK was a notable exception this quarter, with all the major actors having downgraded their margin guidance either last quarter or this one. Margin disappointment even impacted AT1 valuations but the UK is a specific market. Biggest source of NII comes from deposit structural hedges, that take time to reprice. At the same time, depositor base is sophisticated and UK banks have suffered from a faster pass through of rates vs Eurozone peers. On top of it, competition is fierce on both mortgage (a lot of banks chasing very little volumes) and deposits (to increase the pool of hedgeable deposits). Still, we are not overly concerned since UK banks are currently locking in future profits with progressive roll over of hedges, at much higher yields. Expectations are for a progressive downward trend up to mid-24 and then margins back to growth in H2-24 and 2025. Asset quality remained very firm. There are some pockets of risks, especially Chinese and US real estate, but nothing more and cost of risk remained rather below FY guidance, with more optimistic messages for 2024. Overall, Q3 results and first set of 2024 guidance showed encouraging expectations of significant organic capital generation for 2024 which is a comfort to face any unexpected blackswan.

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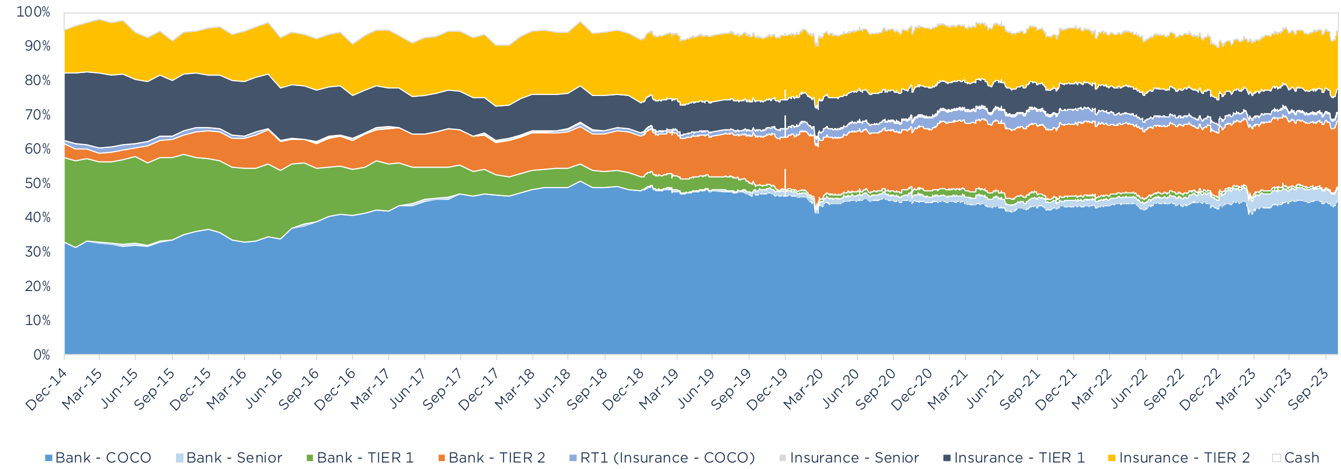
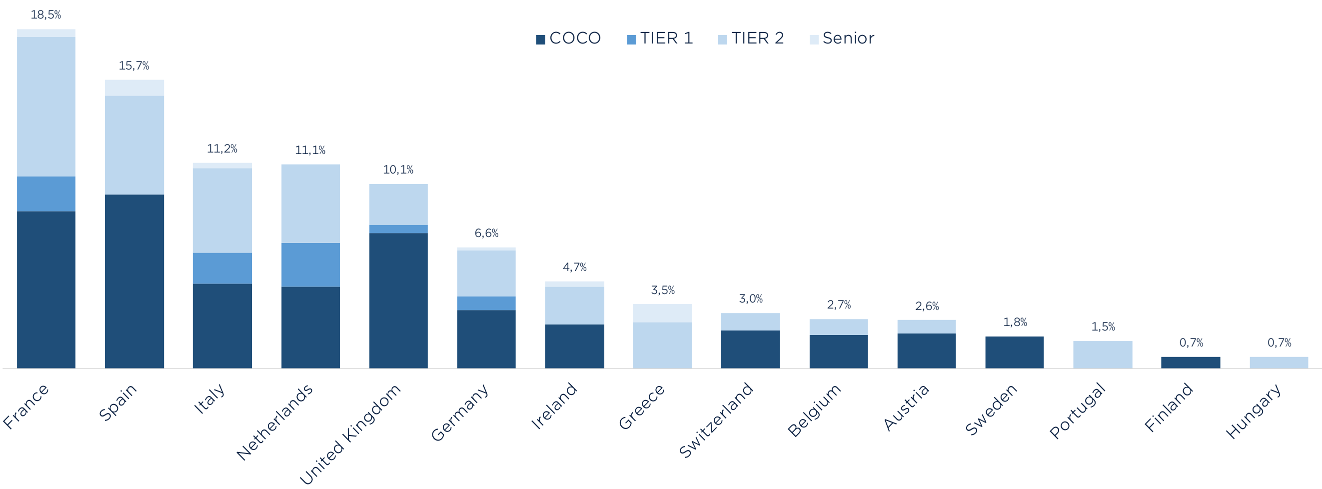
FUND POSITIONING

Primary market was relatively quiet. We bought some AT1s in the secondary following an inflow. We sold 0.1y of duration with modified duration standing at 3.1y and spread duration at 2.8y. We remain positive on CoCos, with 49.5% CoCo allocation and 3.2% cash, considering still attractive valuation and another very appealing Q3-23 results season for financial institutions.

SECTOR / SENIORITY EXPOSURE



FUND POSITIONING (COUNTRY EXPOSURE BY SENIORITY)



ISSUER SPECIFIC

- Another positive month rating wise. Moody's upgraded Sabadell (to Baa2), Bank of Cyprus (to Ba2) while S&P changed Iccrea banca outlook to positive. Also worth noting that S&P raised all La banque postale's subordinated debt by two notched as it now rates it based on CNP's fundamentals.
- A strategic partnership was built up between Alpha Bank and Unicredit. Both entities will merge their Romanian subsidiaries. UCGIM took a 51% in Alphalife asset management subsidiary and also submitted an offer for a 9% stake in Alpha group.
- Metro bank was under pressure early this month following concerns on its capitalisation and profitability. It granted a capital injection from current shareholders + change in the terms of existing subordinated debt, enabling to gain capital and MREL comfort for some time.

AS OF 31 OCTOBER 2023

EDR SICAV – FINANCIAL BONDS

PERFORMANCE ANALYSIS

Performance in October was +0.28%, with our € bonds (83% of the fund) benefitting from lower € rates. Our CoCo buckets outperformed this quarter. 1/ We progressively reduced our Italian exposure throughout the year, following solid outperformance. 2/ We have an overweight on DB and Sabadell, that were among the best performers of the month and 3/ we have much less UK exposure than the CoCo $ market. Our CoCo € bucket delivered a positive 0.72% total return while our CoCo $ bucket delivered a negative -0.36% total return.

Insurance, except from RT1s, was a positive contributor of the funds performance this month, thanks to its lower spread/higher rates sensitivity. On RT1 however, our very small bucket (2.3%) generated a negative -1.24%, pushed down by the clear underperformance of MACIF, and to a lower extent Ageas.

Then, our banks Tier 2 bucket did +0.08%, with high beta bonds underperforming low beta this month, after very strong YTD performance, and also due to their lower rates sensitivity/liquidity. Greek banks still did fine, following the upgrade of Sovereign rating to investment Grade at S&P, and the welcomed strategic partnership between Alpha Bank and Unicredit.

Risk indicators (I EUR Share)

	Fund	Index
Volatility 1y. (%)	6,67	4,38
Volatility 3y. (%)	7,24	5,71
Volatility 5y. (%)	8,79	5,86
Sharpe Ratio 1y.	0,43	0,32
Sharpe Ratio 3y.	-0,22	-0,70
Sharpe Ratio 5y.	0,09	-0,17

Drawdown Analysis (I EUR Share)

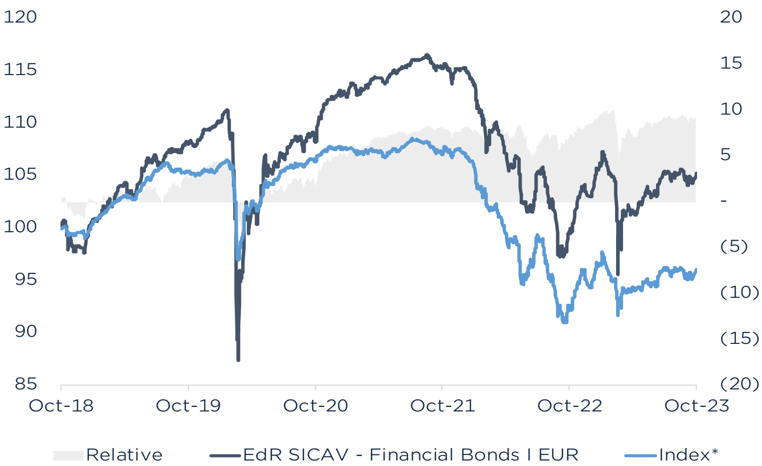
Max. drawdown (%)	-24,6
Period	From 11/04/2011 to 29/11/2011
Recovery	231 business days

FUND PERFORMANCE PER SEGMENT

	Weight (%)	Perf MTD (%)
Senior Bank	3,57	+0,46
TIER 2 Bank	19,26	+0,08
TIER 1 Bank	0,44	-0,14
Coco EUR	30,98	+0,72
Coco GBP	3,22	+0,65
Coco USD	12,91	-0,36
Senior Insurance	0,35	+1,38
TIER 2 Insurance	16,95	+0,39
TIER 1 Insurance	6,72	+0,53
RT1*	2,32	-1,24

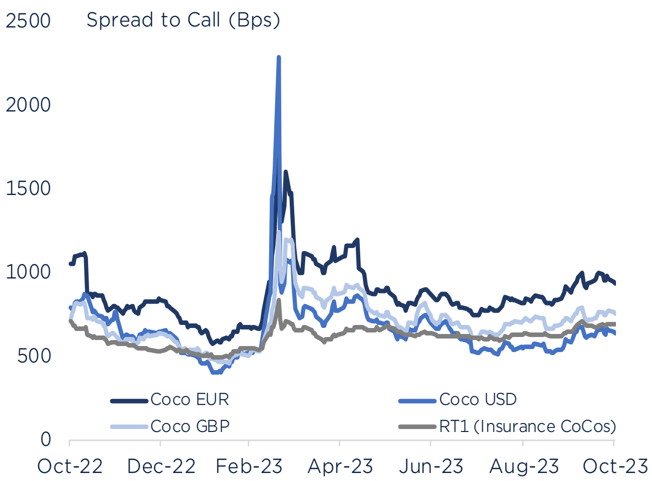
** including interest rate hedging*

FUND PERFORMANCE

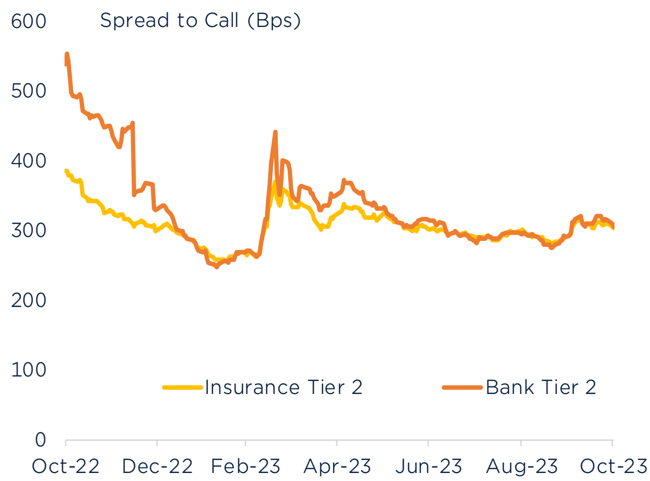


SPREAD EVOLUTION

BANKS & INSURANCE COCOs



BANKS & INSURANCE T2



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TECHNICAL CHARACTERISTICS

	Sub shares	Investors involved in marketing	Initial minimum subscription	Distribution / Accumulation	Maximum entry fees	Maximum exit fees	Actual management fees	Performance fees	Benchmark
Class A	CHF (H) FR0012749869 EUR FR0011034495 USD (H) FR0011882281	All investors	1 Share	Accumulation	1%	-	1,15%	20%	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class B	EUR FR0011289966 USD (H) FR0012494300	All investors	1 Share	Distribution	1%	-	1,15%	20%	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class CR	EUR FR0013307691 GBP (H) FR0013307683 USD (H) FR0013312378	All investors	1 Share	Accumulation	1%	-	0,80%	20%	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class I	CHF (H) FR0012749851 EUR FR0010584474 USD (H) FR0011781210	Legal persons and institutional investors	CHF: 500 000 CHF EUR: 500 000 EUR USD: 500 000 USD	Accumulation	-	-	0,55%	20%	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class J	EUR FR0013174695 GBP (H) FR0013350824 USD (H) FR0013350808	Legal persons and institutional investors	EUR: 500 000 EUR GBP: 500 000 GBP USD: 500 000 USD	Distribution	-	-	0,55%	20%	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class K	EUR FR0013233699	Legal persons and institutional investors	500 000 EUR	Accumulation	-	-	0,75%	-	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class N	EUR FR0011034560	Legal persons and institutional investors	10 000 000 EUR	Accumulation	-	-	0,40%	20%	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class NC	EUR FR0013233707	Legal persons and institutional investors	10 000 000 EUR	Accumulation	-	-	0,55%	-	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class OC	EUR FR0013292463	Legal persons and institutional investors	10 000 000 EUR	Accumulation/ Distribution	-	-	0,55%	-	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
Class R	EUR FR0013287596	All investors	1 Share	Accumulation	1%	-	1,40%	-	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index

RISK AND REWARD PROFILE (Share I - EUR)

Lower risk — Higher risk

Potentially lower return — Potentially higher return

1	2	3	**4**	5	6	7

The definition of the risk and reward category is based on the historical performance data and/or the risk limit indicated in the Sub-Fund's investment policy.
It may not be a reliable indication of the future risk profile of the Sub-Fund. The risk and reward category shown may change over time. Category 1 does not signify a risk-free investment.
This Sub-Fund is rated in category 6, in accordance with the type of shares and geographical zones presented in the "objectives and investment policy" section.

Please note that the main risks of this UCI are as follows:

- Equity risk
- Capital risk
- Risk linked to the SRI (Socially Responsible Investing) selection
- Equity Risks associated with small and mid caps
- Interest rate risk

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This document was issued on 31/03/2022 by EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

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