



EDMOND  
DE ROTHSCHILD

ASSET MANAGEMENT

# EDR SICAV - FINANCIAL BONDS

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EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.



PERFORMANCE (I EUR Share)

	Fund	Index <sup>1</sup>	Out/Under perf.
MTD	+1,70%	+1,37%	+0,33%
YTD	+2,50%	+1,23%	+1,27%
1Y	+13,97%	+9,25%	+4,72%
3Y annua.	+0,38%	-1,55%	+1,94%
5Y annua.	+2,31%	-0,01%	+2,31%
2023	+8,81%	+7,17%	+1,65%
2022	-10,75%	-11,99%	+1,24%
2021	+2,37%	-0,48%	+2,85%
Since inc. annua. <sup>2</sup>	+3,83%	+2,57%	+1,25%

MARKET COMMENT



Market is still fine-tuning its rate cuts scenarios. While in Europe, both data and central bankers seem to converge towards a June cut, The US economy remains remarkably resilient. So the main question is weather we can see a decoupling between Euro and US policies with Europe striking first.

We observed a slight flattening of both curves, with German 10y down 10bps vs US 10y down 5bps.

Another strong month for our asset class with CoCos outperforming. CoCo € and \$ generated a 2.8% and 2.0% total return respectively. Insurance Restricted tier 1 also kept up the momentum (+2.8% total return) with the combination of virtuous primary issuances and, this month, lower rates in the longer end. Tier 2s also generated total returns above 1% with insurance outperforming due to structural higher duration but high beta still doing well generally speaking.

CARACTERISTICS

	Fund	Index <sup>1</sup>
AUM (€m)	1 897	
Yield to Call (%)	6,2	4,5 <sup>4</sup>
Modified Dur.	3,2	3,6
Spread Duration	3,0	3,8
Average Rating	BB+	BBB+
Average Spread (Bps)	291	143
<b>Sustainability</b>		
SFDR	Article 8	
ESG Rating <sup>3</sup>	11,17	11,12

German credit outperformed, following some relief on the Commercial Real Estate thematic. Specialist lenders as well as Landesbanks, reported rather reassuring FY23 results and there is no imminent default to expect. Laggards, as well as low reset AT1s also performed better than the overall market in a general hunt for yield. In the other side of the spectrum, RBI underperformed as they had to pull an AT1 deal on the back of US sanction threats on its Russian cash upstreaming operation.

Supply remained heavy, with issuers managing their upcoming calls by doing concomitant tenders and issuances. Two Dutch RT1s were issued, along with a new SocGen \$ AT1. In Tier 2s, we notably had Volksbank, Sondrio or National Bank of Greece, along with a flurry of seniors.

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



German specialist CRE lenders and Landesbanks FY23 results reassured the market.

In February, CRE fears led some German CRE lenders' subordinated debt to even price an imminent default. A month later, these same bonds are not back to normal but show significant relief, on the back of reassuring FY23 figures. Deutsche Pfandbriefbank's (PBB) AT1 went as low as 19% cash price in mid February and ended March at c.41%. Aareal AT1 gained 19pts in the same period and LBBW gained 12pts, trending back to the 90s cash price.

**What did we learn from the FY results? First**, as we stated, there is no liquidity pressure that would accelerate the struggles. Both Aareal and PBB Liquidity Coverage Ratios are >200% as of Dec-23 with >€6bn High Quality Liquid Assets. These banks mostly rely on long term funding (Pfandbriefe) but both were able to raise further liquidity via term deposits and thus can stay out of the financial markets for some time. **Second**, CRE is a slow burn. If non performing exposures are increasing, it is so far mostly concentrated in the US. Both banks have been able to offset part of NPE inflows with outflows. Indeed, CRE lending is backed by collateral. The disposal of this collateral generates provision recoveries. **If we expect difficult CRE environment to keep weighting on these names, both banks capitalisation actually increased in Q4 and both expect to generate higher profit in 2024 vs 2023.**

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Past performance is not a reliable indicator of future performance. Source: Edmond de Rothschild Asset Management (France), Bloomberg, Front Office.



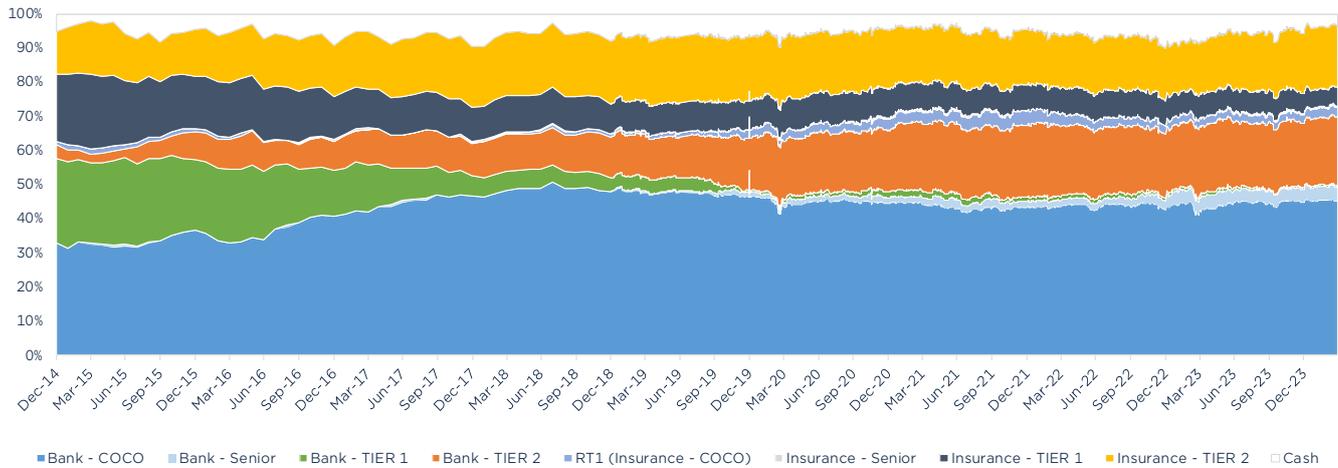
FUND POSITIONING



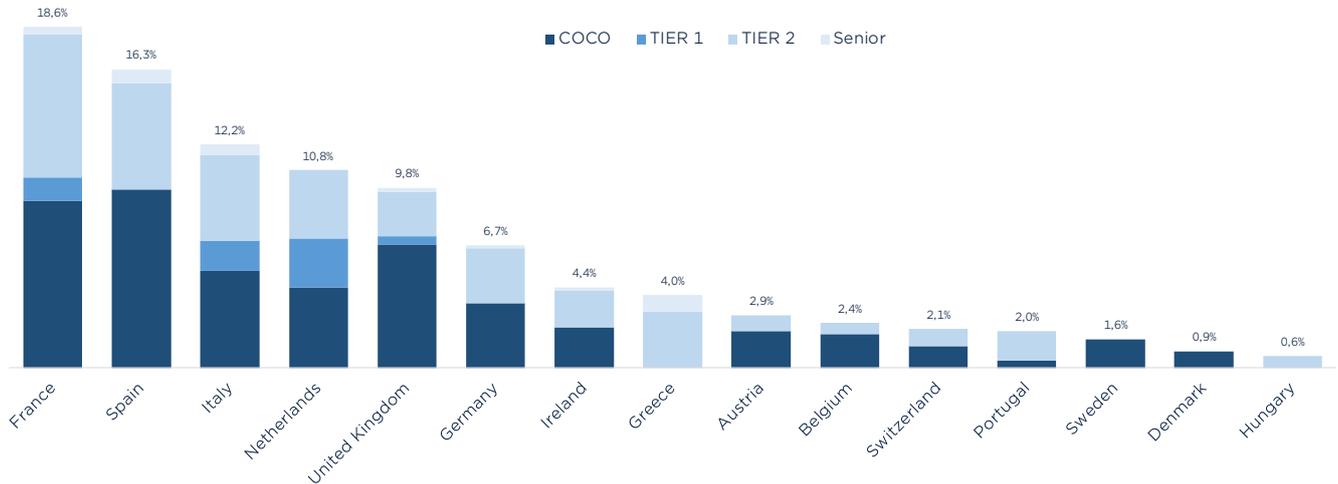
We keep selectively investing in the primary market. We had some tendered bonds that we rolled into new ones, thus maintaining our spread duration at 3y. We notably participated in the new ASR RT1 while submitting our legacy perps to the tender. With the high level of tenders, our cash increased back to 2.7%.

We added 0.2y of modified duration via BoBL in a good entry point and modified duration is now at 3.2. YTC of the fund is 6.2%.

SECTOR / SENIORITY EXPOSURE



FUND POSITIONING (COUNTRY EXPOSURE BY SENIORITY)



ISSUER SPECIFIC

- Raiffeisen Bank International (RBI) had to postpone a concomitant tender on its € 8.659% AT1 associated with a new issue due to headlines reported on Reuters stating that US authorities could be pressuring RBI to drop its ongoing acquisition of Strabag (a deal supposed to enable a significant €1.5bn cash upstream from its Russian subsidiary). RBI sticks with its view that the deal complies with all rules.
- M&A is back! UK's largest building society Nationwide has made an offer to buy Virgin Money UK at 220p/share (38% premium). The deal is backed by VM's board. Combined entities total assets would reach £367bn and the new entity would become the UK #2 player in mortgages (behind Lloyds). Virgin Money's most recently issued £ AT1 gained 8pts on the news. On the insurance side, the Belgian national champion Ageas did two attempts to buy the UK P&C insurer Direct Line without success.

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PERFORMANCE ANALYSIS



After a small pause in February, performance of the fund was strong again in March, at +1.7%, leading the performance of the first three months of the year to 2.5%.

All our sub segments contributed quite positively to the performance since both rates and spreads were well oriented. High beta categories tended to outperformed again with our RT1 bucket delivering an outstanding 4% total return thanks to both virtuous primary market (NN and ASR successfully printing RT1s with very solid orderbooks) and our overweight on MACIF (+5.6% total return). On banks CoCo we benefitted from our overweight on Deutsche Bank and our exposure to LBBW AT1 (12% total return) offsetting our slight under positioning on low coupons. Our high beta banks Tier 2 pocket kept doing well while on insurance, the very short dated legacy perps underperformed vs structurally longer dated new style vanilla Tier 2s.

On idiosyncratic, we are not positioned on UK challenger banks that were pushed by the Nationwide/Virgin Money deal and we lost some performance on the RBI's pulled AT1 deal since it slightly impacted its curve. Our Santander and DB low coupon €AT1s performed very well. Being significantly invested and fully using our CoCo allocation remained the good decision in such high return context.

Risk indicators (1 EUR Share)

	Fund	Index
Volatility 1y. (%)	4,68	3,64
Volatility 3y. (%)	7,50	6,18
Volatility 5y. (%)	8,89	6,08
Sharpe Ratio 1y.	2,84	1,81
Sharpe Ratio 3y.	-0,11	-0,45
Sharpe Ratio 5y.	0,20	-0,09

Drawdown Analysis (1 EUR Share)

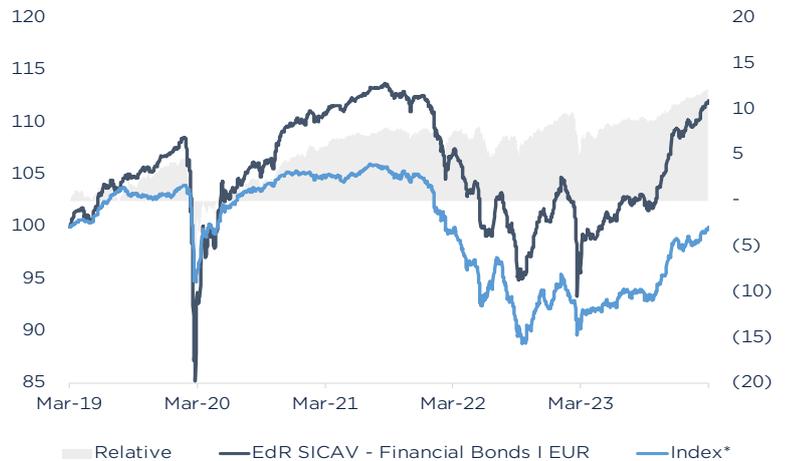
Max. drawdown (%)	-24,6
Period	From 11/04/2011 to 29/11/2011
Recovery	231 business days

FUND PERFORMANCE PER SEGMENT

	Weight (%)	Perf MTD (%)
Senior Bank	4,00	+1,57
TIER 2 Bank	19,95	+1,37
TIER 1 Bank	0,44	+1,20
Coco EUR	32,57	+2,47
Coco GBP	3,09	+2,06
Coco USD	10,84	+1,79
Senior Insurance	0,36	+1,21
TIER 2 Insurance	17,53	+1,36
TIER 1 Insurance	5,58	+0,38
RT1*	2,86	+3,98

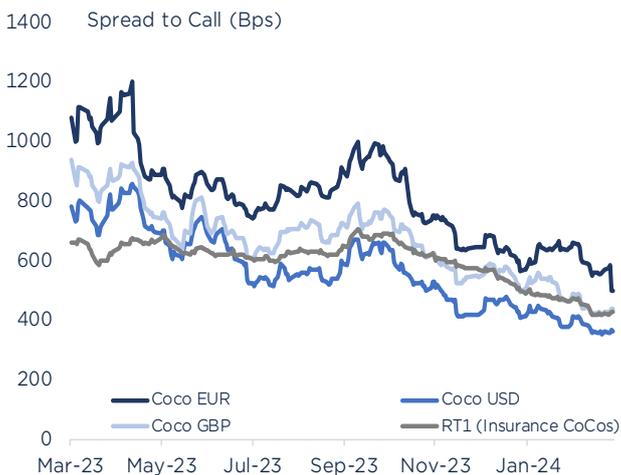
\* including interest rate hedging

FUND PERFORMANCE

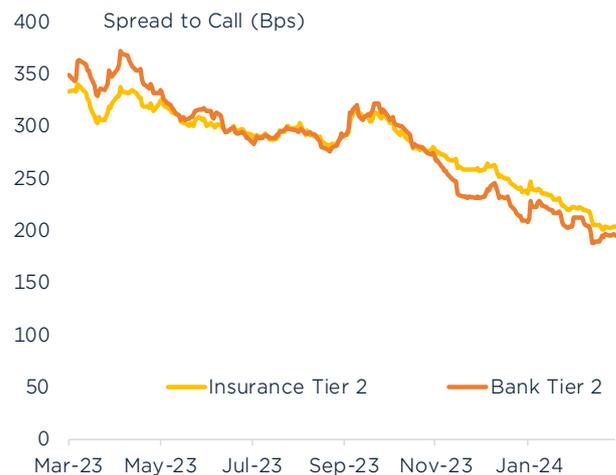


SPREAD EVOLUTION

BANKS & INSURANCE COCos



BANKS & INSURANCE T2



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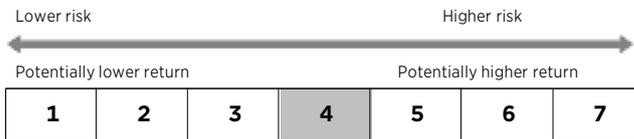
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TECHNICAL CHARACTERISTICS

	Sub shares	Investors involved in marketing	Initial minimum subscription	Distribution / Accumulation	Maximum entry fees	Maximum exit fees	Actual management fees	Performance fees	Benchmark
<b>Class A</b>	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
<b>Class B</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
<b>Class CR</b>	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
<b>Class I</b>	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
<b>Class J</b>	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
<b>Class K</b>	EUR FR0013233699	Legal persons and institutional investors	500 000 EUR	Accumulation	-	-	0,75%	-	80% ICE BofA Euro Fin. Index 20% ICE BofA Coco Index
<b>Class N</b>	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
<b>Class NC</b>	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
<b>Class OC</b>	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
<b>Class R</b>	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)



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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