

June 2021

# EDMOND DE ROTHSCHILD FUND BOND ALLOCATION


**AUM**  
**€ 2.64bn**

as of 30/6/2021

## MARKETS COMMENT

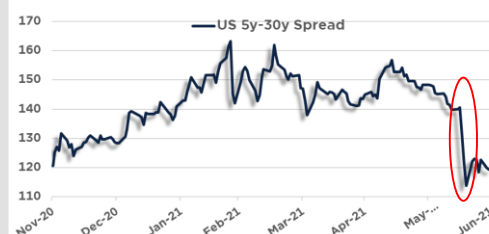
- ▶ The MSCI Europe and the S&P 500 ended the first half of the year with returns above 15% (NTR), continuing to appreciate over the month by about 1.5% each. Behind the quietness of this progression is still a significant volatility around the "reflation-trade".
- ▶ The FED meeting (*see Focus of the month*) will have had many impacts on investors. The one that best summarizes this, is the flattening movement of the curve that we observed, the 2/30 having gone from 215 bps to 184 bps, with a movement that was operated by both part of the curve, the short-end and the long-end parts. This reflects on the one hand the message sent by the Dot Plots favoring a rise in Fed Funds rate expectations, and on the other hand a drop in inflation expectations where the FED's more "hawkish" tone seems to have led investors to reconsider the FED's tolerance for inflation sustainably above 2%.
- ▶ In this context, the US 10-year bond declined from 1.60% to 1.47%, while its German counterpart moved in the same direction but to a lesser extent, falling by only -2bps to -0.21%. The contrast in dynamics between the two zones is also reflected in the appreciation of the US dollar, which ended the month at 1.1858, up 2.9% versus EUR over the month.
- ▶ With regard to the Covid situation, if the economies continue to reopen, the spread of the variant Delta will have weighed on the markets, notably by amplifying the drop in interest rates, but also by underperforming financials, basic materials and, more generally, sectors linked to tourism, while defensives and technology outperformed. Overall economic indicators validated the continued reopening of the Eurozone, while in the US a certain slowdown in momentum continues to be felt, particularly in job creation.
- ▶ Oil rose sharply (+11% for Crude and +9% for Brent), as a result of lower US inventories and the upward revision of OPEC+ demand forecasts.
- ▶ Finally, in this environment, corporate debt continued to tighten, with the spread of the Markit HY indices in the US and Europe falling by 15 bps.

## FOCUS OF THE MONTH

The impact of the FED meeting on investors' expectations and positioning was significant. First of all, it was the release of the Dot Plot that surprised. The new Dot Plot shows 7 members comfortable with lifting rates in 2022 and the median dot in 2023 rising from zero hike to two hikes.

On the long-end curve, the Fed's more "hawkish" tone has led investors to revise their expectations, with the 10-year break-even inflation rate falling by 11bps to 2.34%. The FED thus placed the risk to inflation clearly on the upside whereas it was broadly balanced in March.

Of course, following this and the significant reaction of investors (with 5/30 US rates 18 bps flatter on a day), Jerome Powell and some FOMC members emphasized again the need to see more gains in the labor market and more evidence of sustained wage growth, especially among minorities and lower-paid employees before entering a tapering phase.



Sources: EdR, Bloomberg, as of 06/30/21

## Performance of Fixed Income Indices

			MTD	YTD
<b>Aggregate</b>	Global Agg	BarCap Global Agg EUR hedged	0.4%	-1.9%
<b>Govt</b>	EMU ex Periph	JPM GBI EMU ex périph	0.4%	-3.7%
	EMU Periph	JPM GBI periph	0.5%	-2.3%
	US Treasury	Bloomberg US Treasury	0.6%	-2.6%
	UK Sov	Bloomberg UK Sov	0.7%	-5.8%
<b>Credit</b>	IG EUR	ML Euro Corporate	0.4%	-0.4%
	HY EUR	ML Euro High Yield	0.6%	2.5%
	IG USD	ML US Corporate	1.7%	-1.1%
	HY USD	ML US High Yield	1.4%	3.7%
<b>Diversification</b>	EMU	Barclays Euro ILB	0.3%	1.7%
	Convertible Bonds	Exane Europe Convertibles	0.8%	1.8%
	Hard Currency	JPM EMBI	0.9%	-1.0%
	Local Currency	JPM GBI EM unhedged USD	-1.2%	-1.6%

Past performance and volatility is no guarantee of future performance and volatility which may change over time, and can be separately affected by fluctuating exchange rates. Performance data does not take into account the fees and charges received when issuing and redeeming units. Source : Edmond de Rothschild Asset Management (France). Portfolio data as of 30/06/2021



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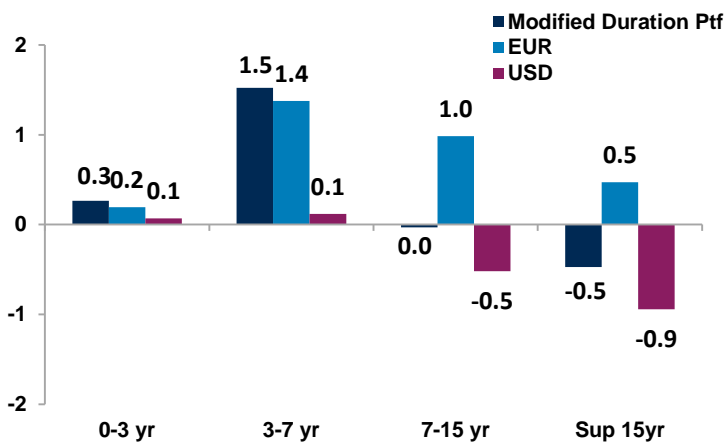
# EDMOND DE ROTHSCHILD FUND BOND ALLOCATION



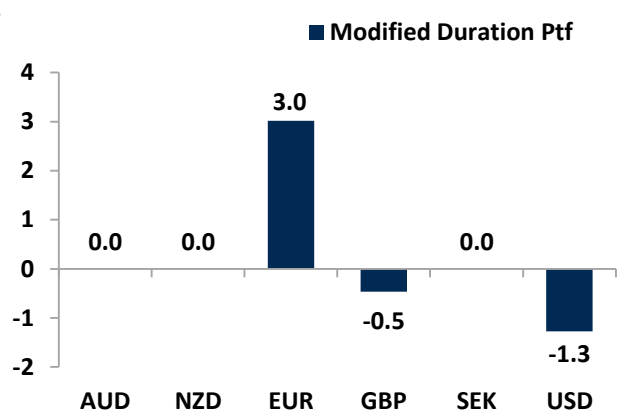
## FUND POSITIONING - MODIFIED DURATION

- > We reduced our overall Modified Duration during the month, from 1.88 years to 1.28 years.
- > This reduction was mainly done on the USD curve where we went into negative Modified Duration on the long-end curve.
- > On the EUR part, we maintain a positive Modified Duration that we have even strengthened at 2.8-year, in particular via the 10-year.

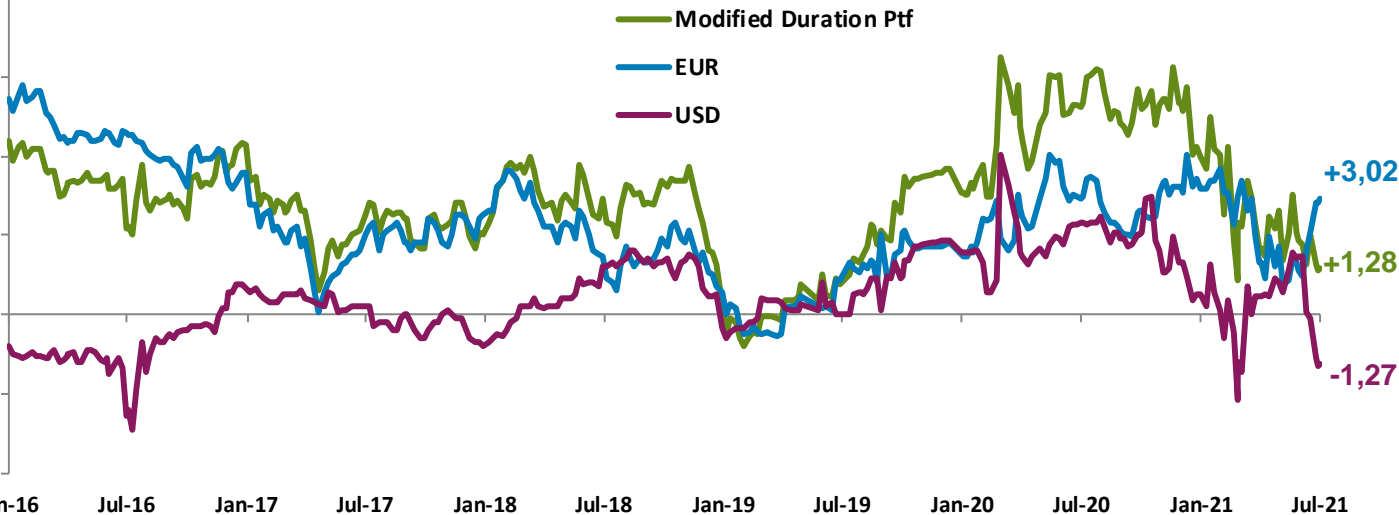
### Breakdown by maturity



### Breakdown by yield curve



### Geographical Allocation - Modified Duration Breakdown by Yield Curve



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# EDMOND DE ROTHSCHILD FUND BOND ALLOCATION

## FUND POSITIONING - ALLOCATION

	Investment	CDS (*)	TRS (*)	Exposure
Cash / short term papers	7.7%			7.7%
Government Bonds	17.6%			17.6%
Sub Fin	20.5%			20.5%
High Yield Corp	9.7%	-0.3%		9.3%
Corp Investment Grade	22.0%		2.9%	24.9%
Inflation Linked Bonds	0.0%			0.0%
Emerging Sovereigns	17.1%			17.1%
Emerging Corp	3.6%			3.6%
Convertibles bonds	2.8%			2.8%
Macro hedge		-0.8%		-0.8%

(\*) : CDS : Credit Default Swaps, TRS : Total Return Swaps

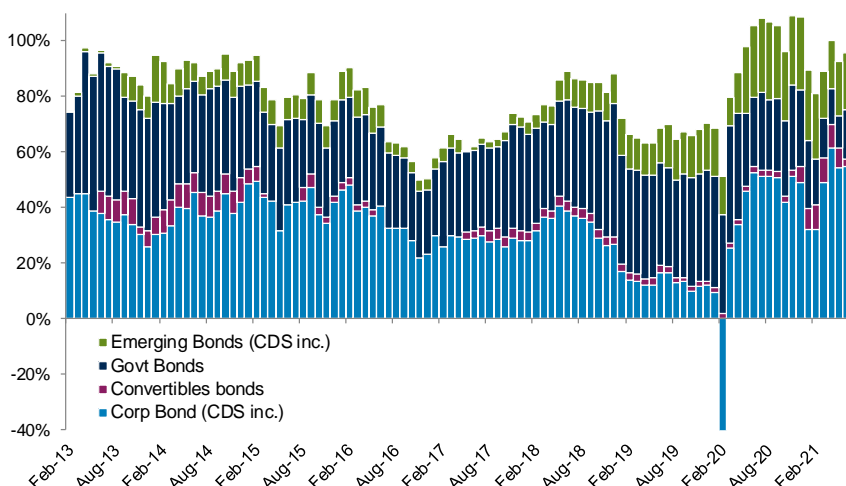
› Over the period we have increased our Spread Duration to 5.85 years. We have been tactical on the management of this one, if we had bought hedge via CDS following the FOMC, we will have quickly neutralized this position following the good behavior of risky assets.

› During the period, we slightly strengthened our position in subordinated financial debt, as well as in EM debt (hard currency) through issues in the Investment Grade sector, and increased our positions in Italy and France versus Germany.

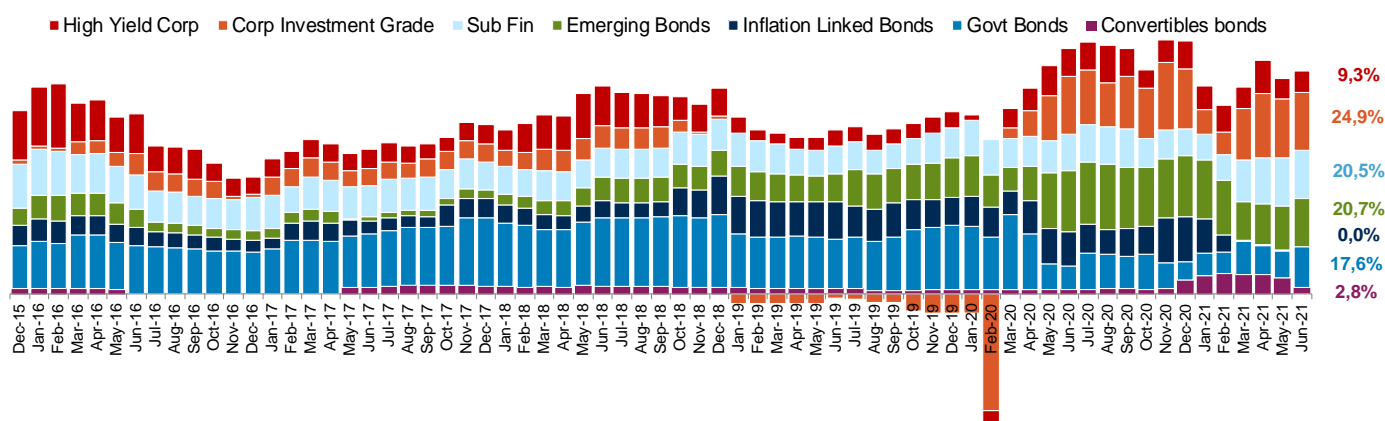
› In addition, we continued to reduce our position in convertible bonds, which now represents just under 3% of exposure.

› Finally, at the beginning of the month, we finished taking full profits on our long inflation positions.

### Evolution of the exposure since strategy overhaul



### Evolution of the exposure since 2016



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# EDMOND DE ROTHSCHILD FUND BOND ALLOCATION

## PERFORMANCE ANALYSIS

### Performance vs fixed-income indices since strategy overhaul (14/02/2013)



### Performance for class I (EUR)

<b>1 month</b>	0.43%
<b>3 months</b>	1.25%
<b>YTD</b>	1.00%
<b>1 year</b>	8.02%
<b>2 years *</b>	3.46%
<b>3 years *</b>	2.95%
<b>4 years *</b>	2.40%
<b>Since inception (14/02/13) *</b>	3.82%

### Risk indicators of class I (EUR)

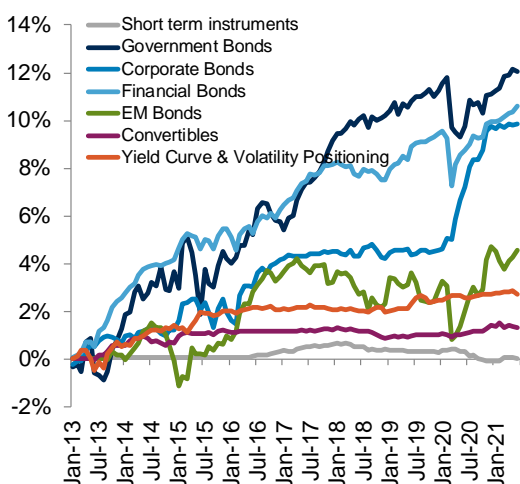
<b>Volatility 1 year</b>	2.16%
<b>Volatility 3 years</b>	3.83%
<b>Sharpe Ratio since 14/02/13</b>	1.1
<b>Max draw down</b>	-9.7%
<b>Period</b>	from 03/09/2020 to 03/19/2020
<b>Recovery</b>	121 business days

\* Annualized performance

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual
2013		0.14%	0.00%	2.16%	0.07%	-2.22%	1.23%	-0.15%	1.36%	1.95%	0.55%	0.13%	5.28%
2014	0.79%	1.05%	1.17%	1.10%	0.24%	0.64%	0.54%	-0.37%	0.01%	-0.91%	0.02%	0.09%	4.42%
2015	-0.53%	3.53%	0.22%	0.87%	-1.14%	-2.22%	2.37%	-0.79%	-1.47%	2.59%	1.25%	-0.77%	3.80%
2016	-0.87%	-0.33%	2.96%	0.86%	0.85%	0.25%	2.29%	0.73%	0.02%	-0.19%	-0.63%	0.57%	6.64%
2017	0.15%	0.63%	0.00%	1.06%	0.40%	0.03%	0.36%	0.34%	0.25%	0.88%	-0.52%	0.31%	3.94%
2018	0.75%	-0.28%	0.05%	0.28%	-1.29%	-0.36%	0.81%	-1.52%	1.13%	-0.94%	-0.67%	-0.19%	-2.25%
2019	2.15%	0.46%	-0.68%	0.53%	-0.44%	1.35%	0.30%	-0.64%	-0.11%	-0.33%	-0.14%	0.69%	3.15%
2020	0.97%	0.14%	-6.36%	1.73%	1.46%	1.65%	2.33%	0.64%	-0.23%	0.13%	2.96%	0.97%	6.23%
2021	-0.25%	-0.11%	0.12%	0.54%	0.27%	0.43%							1.00%

### Performance contribution (gross of fees)

#### Evolution of performance contributors



#### Contribution over the month

<b>Government Bonds</b>	<b>-0.07%</b>
<b>Financial Bonds</b>	<b>0.24%</b>
<b>Corporate Bonds</b>	<b>0.07%</b>
<b>EM Bonds</b>	<b>0.31%</b>
<b>Yield Curve &amp; Volatility Positioning</b>	<b>-0.16%</b>
<b>Convertibles</b>	<b>-0.05%</b>
<b>Short Term instruments &amp; FX Hedging</b>	<b>-0.06%</b>

#### Main Performance drivers in June 2021

Overall, our portfolio did not benefit from the decline in interest rates, as a result of our low level of Modified Duration; which is only slightly sensitive to interest rates and even negative on the USD.

On the other hand, we continued to benefit from the compression of credit spreads in the various segments to which we are exposed.

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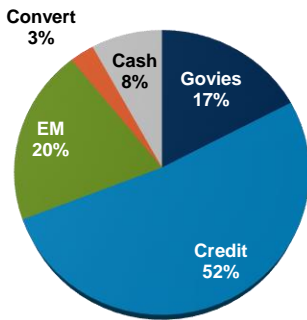
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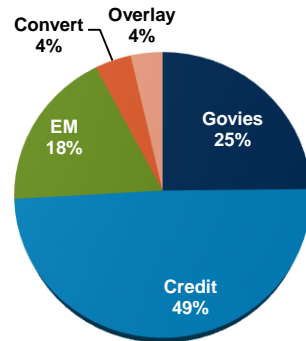
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## RISK ANALYSIS

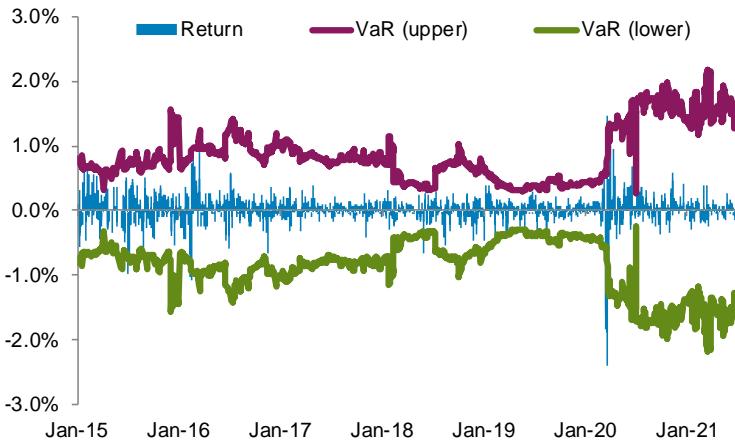
### Cash exposure



### Risk exposure

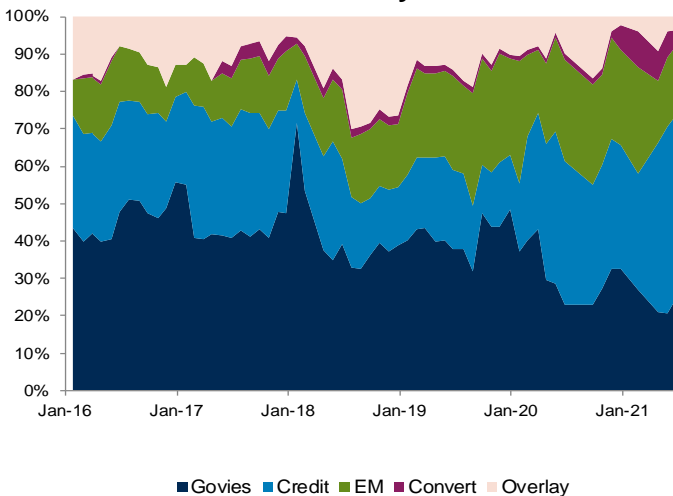


### Returns vs VaR 99% 1d

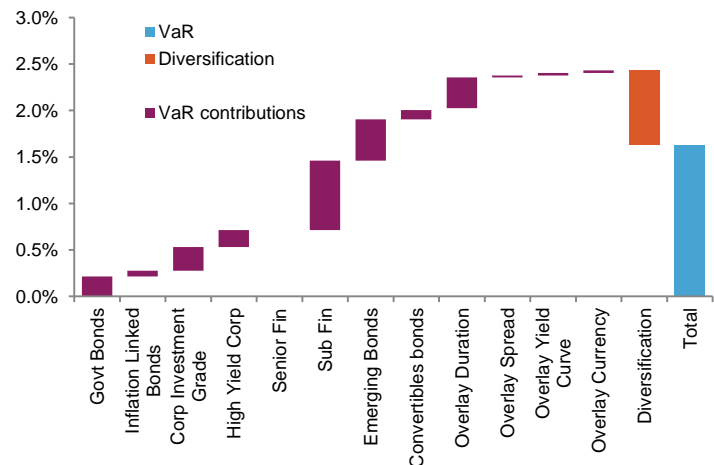


- › The Value at Risk<sub>(99%,1 day)</sub> of the portfolio remained stable to 1.63% (vs. 1.62% the previous month).
- › Overall, the structure of our portfolio remained relatively similar from one month to the next.

### VaR breakdown by asset class



### Diversification effect



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## TERMS & CONDITIONS

	Class I	Class J	Class K	Class N
<b>Sub-classes</b>	CHF (H) EUR USD (H)	USD (H)	EUR	EUR
<b>ISIN Code</b>	I-CHF (H) LU1426149875 I-EUR LU1161526816 I-USD (H) LU1426149792	J-USD (H) LU1426150295	K-EUR LU1161526659	N-EUR LU1426150964
<b>Eligible investors</b>	Institutional Investors			
<b>Minimum holding requirement</b>	500 000 EUR	500 000 EUR	500 000 EUR	20 000 000 EUR
<b>Payout / Accumulate</b>	Accumulation	Distribution	Accumulation	Accumulation
<b>Subscription fee</b>	-	-	-	-
<b>Redemption fee</b>	-	-	-	-
<b>Global management fee</b>	0,4%	0,4%	0,6%	0,4%
<b>Performance fee</b>	15%	15%	-	-
<b>Benchmark</b>	% BarCap Euro-Aggregate Corporates (EUR) + 50% BarCap Euro-Aggregate Treasury (EUR)			

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