



EDMOND
DE ROTHSCHILD

ASSET MANAGEMENT

EDR SICAV - BOND ALLOCATION



EDMOND DE ROTHSCHILD, BOLD BUILDERS OF THE FUTURE.

October 2021


AUM
€ 2.71bn

as of 29/10/2021

EDMOND DE ROTHSCHILD FUND BOND ALLOCATION

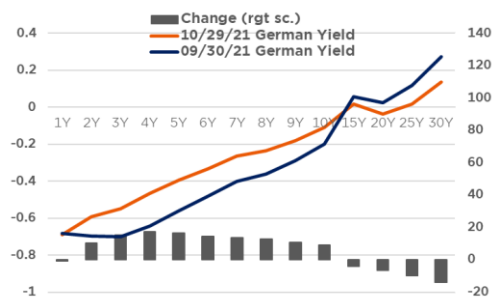
MARKETS COMMENT

- The rates markets had a very turbulent month with more anxiety building around inflation with higher global rates, led by short-end rates and important curve movements (see Focus of the month).
- The bond environment has thus been very volatile as a result of, first of all, increasingly strong pressure on inflation expectations as a result of persistently high energy and commodity prices and numerous bottlenecks related to the economies reopening, which for instance are reflected in the flash CPI for the Eurozone in October, which came in at 4.1% YoY. These tensions continue to fuel a focused but present pressure on wages with the US average hourly earnings rising 4.6% YoY (after 4.0%), as well as weighing on growth through a lack of labour supply. Moreover, growth was softer in Q3, with US GDP annualized QoQ at only 2% and disappointing data in China.
- Faced with this environment, the Bank of England and the Bank of Canada have taken a more hawkish stance and some members of the Fed's Board of Governors have also said that the risks to inflation are on the rise. This has led to FED funds futures pricing 5 rate hikes by the end of 2023, while in the UK forward contracts prices 1.36% rate hikes by the end of 2022. Only the ECB will have resisted by maintaining a more dovish stance. On the emerging market side, inflation has led several central banks to raise their key base rates, such as Russia and Brazil.
- The other consequence of this volatility on rates and this more hawkish tone of the central bankers is a widening of the peripheral spreads which had previously hit rather low levels, like the Italian 10 year vs. Germany was in a range of 100-110bps most of the year which broke with the spread reaching 128bps at the end of the month.
- In this context, the MSCI World (loc. curr.) shows little volatility and is up strongly +5.7% notably thanks to its US component, reflecting the good earnings season. Like equities, credit spreads were resilient, with the Itr Main stable at 50 and the Itrx Xover slightly up by +8bps at 262.

FOCUS OF THE MONTH

Anxiety among investors grew around the inflationary pressures building up across the world. EUR inflation breakevens rose to the highest level since 2014 with 10yr Germany breakeven attaining 1.96% and its U.S. counterpart touching 2.7%; Nervousness on this topic and some central banks hawkish speeches (BOE, BOC) triggered a sharp repricing of rate hikes expectations.

The speed of this repricing caught a lot of investors wrong-footed leading to mass liquidation of position exacerbating moves in absolute yields and also on government curves from mid-October. Numerous investors were positioned in curve steepeners on expectations that central banks would remain accommodative next year, leading to a sharp move the opposite way (curve flattening) as they exited.



Sources: EdR, Bloomberg, as of 10/29/21

Performance of Fixed Income Indices

			MTD	YTD
Aggregate	Global Agg	BarCap Global Agg EUR hedged	-0.3%	-2.4%
Govt	EMU ex Periph.	JPM GBI EMU ex Periph.	-0.2%	-4.0%
	EMU Periph.	JPM GBI Periph.	-1.2%	-3.2%
	US Treasury	Bloomberg US Treasury	-0.1%	-2.6%
	UK Sov.	Bloomberg UK Sov.	2.3%	-5.6%
Credit	IG EUR	ML Euro Corporate	-0.7%	-1.1%
	HY EUR	ML Euro High Yield	-0.6%	2.5%
	IG USD	ML US Corporate	0.2%	-0.9%
	HY USD	ML US High Yield	-0.2%	4.5%
Diversification	EMU	Barclays Euro ILB	0.0%	4.6%
	Convertible Bonds	Exane Europe Convertibles	1.1%	1.8%
	Hard Currency	JPM EMBI	0.1%	-1.5%
	Local Currency	JPM GBI EM unhedged USD	-0.7%	-3.8%

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 29/10/2021

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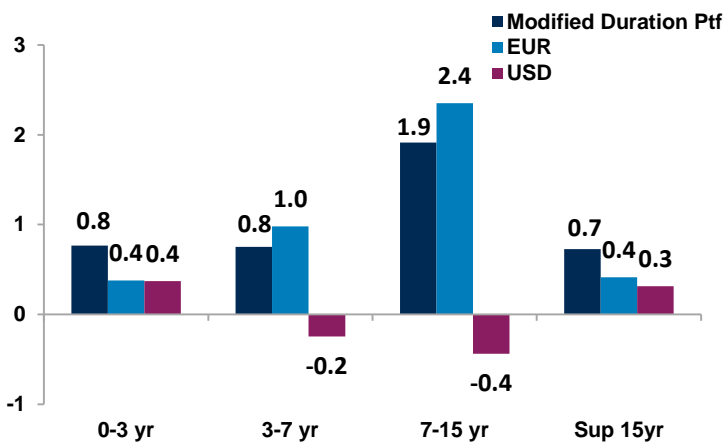
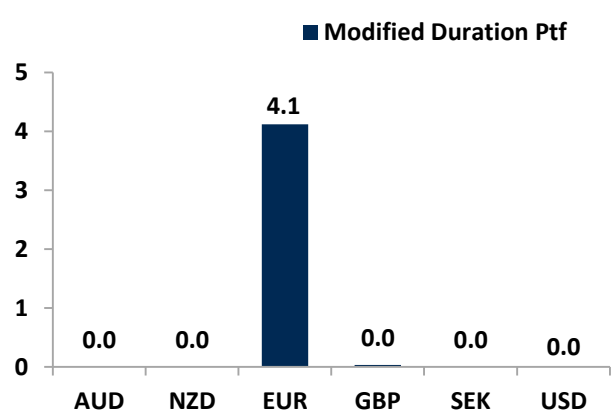
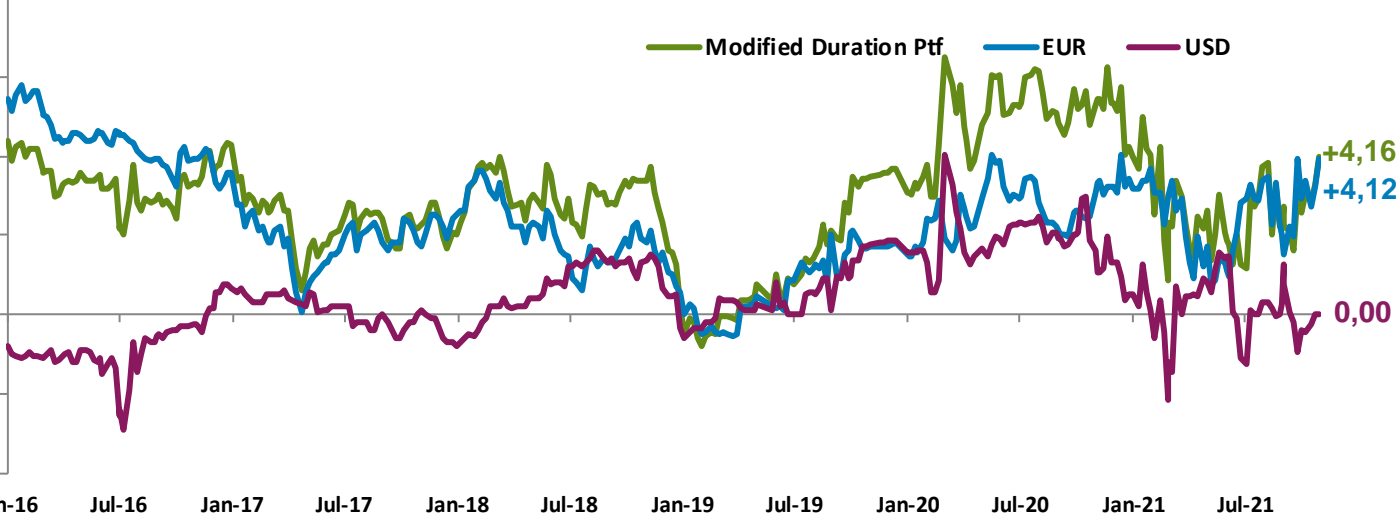
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EDMOND DE ROTHSCHILD FUND BOND ALLOCATION



FUND POSITIONING - MODIFIED DURATION

- Over the period, our Modified Duration was increased from 2.6 years to 4.2 years. It is particularly during the second half of the month that we have accentuated this position, considering that the levels reached were becoming attractive, especially on the EUR curve.
- At the beginning of the month, we had also neutralised our negative Modified Duration on the USD curve, and since then we have taken a neutral view on this curve. Our overall increase on the Modified Duration was then realised on the EUR curve. This is the first time this year that we have gone back above 4 years of duration at the fund level.

Breakdown by maturity

Breakdown by yield curve

Geographical Allocation - Modified Duration Breakdown by Yield Curve


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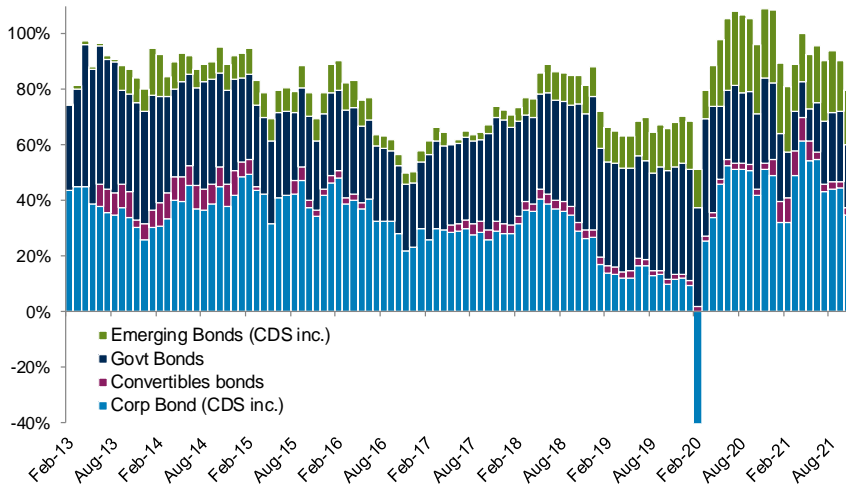
FUND POSITIONING - ALLOCATION

	Investment	CDS (*) TRS (*)	Exposure
Cash / short term papers	9.3%		9.3%
Government Bonds	18.9%		18.9%
Sub Fin	16.4%		16.4%
High Yield Corp	15.2%	-0.8%	14.4%
Corp Investment Grade	13.6%	-9.5%	4.2%
Inflation Linked Bonds	3.6%		3.6%
Emerging Sovereigns	17.5%	-1.4%	16.1%
Emerging Corp	3.5%		3.5%
Convertibles bonds	2.5%		2.5%
Macro hedge			

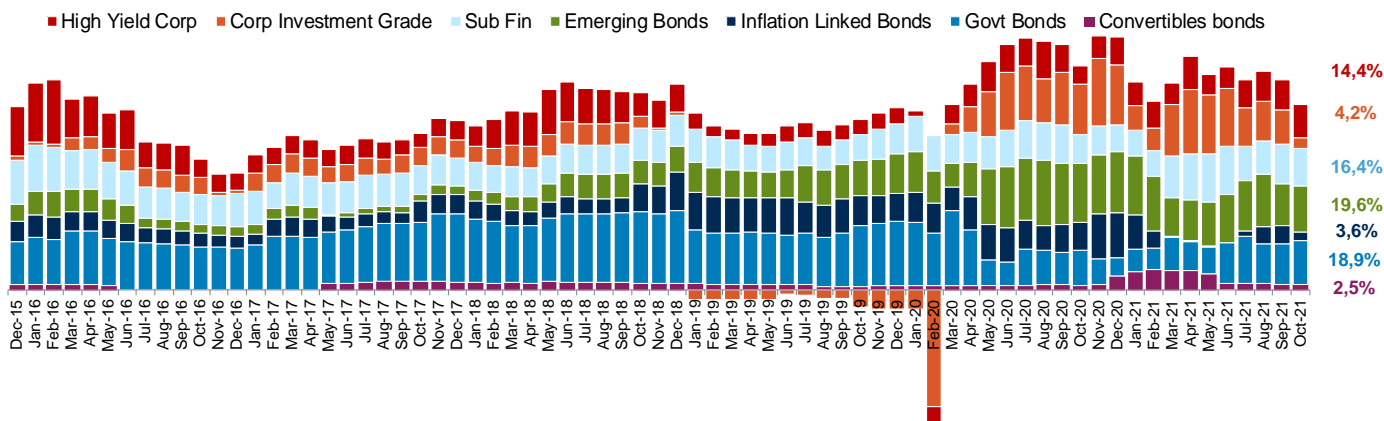
(*) : CDS : Credit Default Swaps, TRS : Total Return Swaps

- Over the period, our allocation to the bond segments remained the same, apart from adjustments to hedges and our position in EUR inflation breakevens.
- We have been active on our credit spread hedging. At the beginning of the month we complemented our hedges on the Xover via a position on CDX EM. In the middle of the month we cut almost all of these positions. Then, at the end of the month, we again reinforced our hedges via Itraxx Xover and Main, fearing rates volatility could spillover to credit markets.
- During the month, we took profit on our position in EUR inflation breakevens, as the market reached 7-yr highs. Overall we have cut 2/3 of our position.
- Finally, we also protected the little peripheral debt we had left in position, before the widening took place.

Evolution of the exposure since strategy overhaul



Evolution of the exposure since 2016



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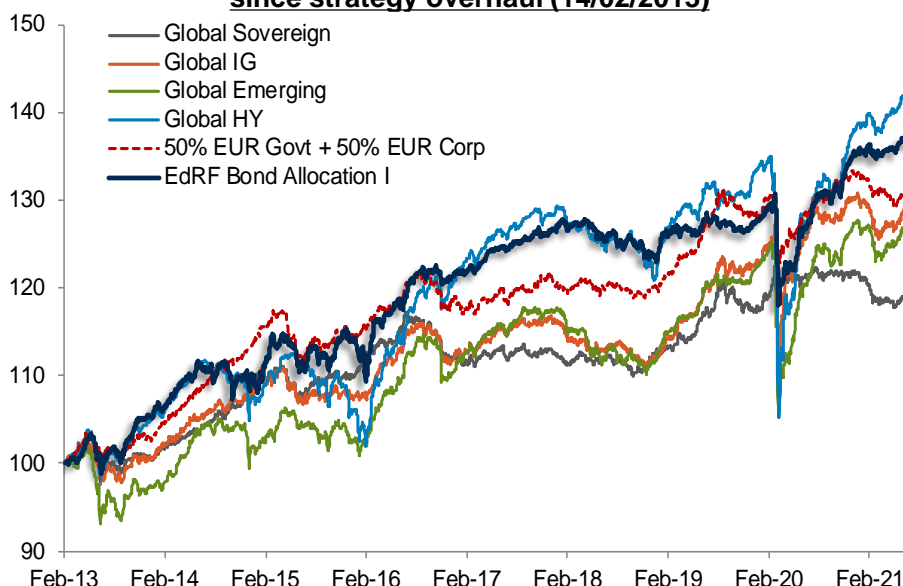
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EDMOND DE ROTHSCHILD FUND BOND ALLOCATION

PERFORMANCE ANALYSIS

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



Performance for class I (EUR)	
1 month	-0.48%
3 months	-0.63%
YTD	0.34%
1 year	4.34%
2 years *	3.53%
3 years *	2.92%
4 years *	1.77%
Since inception (14/02/13) *	3.59%

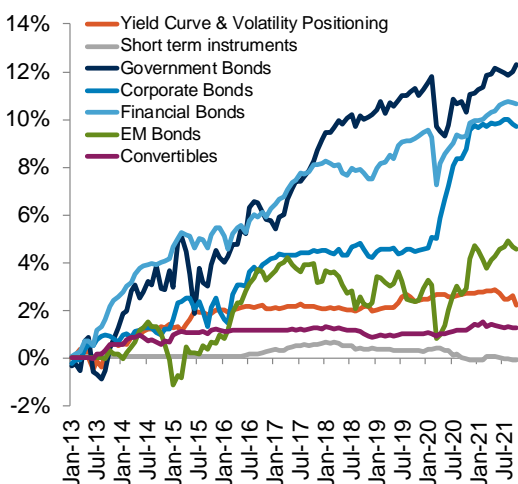
Risk indicators of class I (EUR)	
Volatility 1 year	1.80%
Volatility 3 years	3.71%
Sharpe Ratio since 14/02/13	1.0
Max draw down	-9.7%
Period	from 03/09/2020 to 03/19/2020
Recovery	121 business days

* 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%	-0.02%	0.05%	-0.20%	-0.48%			0.34%

Performance contribution (gross of fees)

Evolution of performance contributors



Contribution over the month

Government Bonds	0.27%
Financial Bonds	-0.08%
Corporate Bonds	-0.10%
EM Bonds	-0.10%
Yield Curve & Volatility Positioning	-0.39%
Convertibles	0.03%
Short Term instruments & FX Hedging	-0.01%

Main Performance drivers in

October 2021

Over the period, our position in EUR Inflation breakevens contributed positively by 28 bps. On the other hand, the fund suffered from rising interest rates.

Our positions in Corporate Bonds, Financial Bonds and EM Bonds suffered slightly from the light tensions on credit spreads, but their negative contribution came mainly from their Modified Duration.

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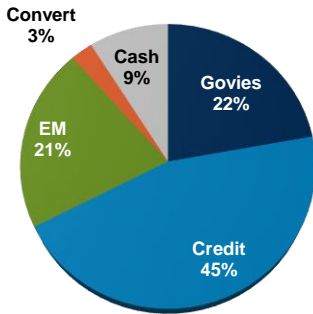
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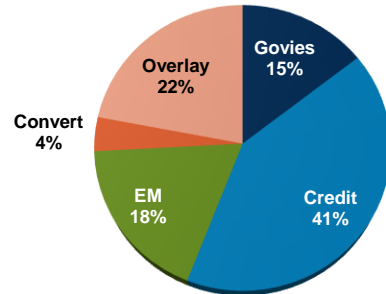
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RISK ANALYSIS

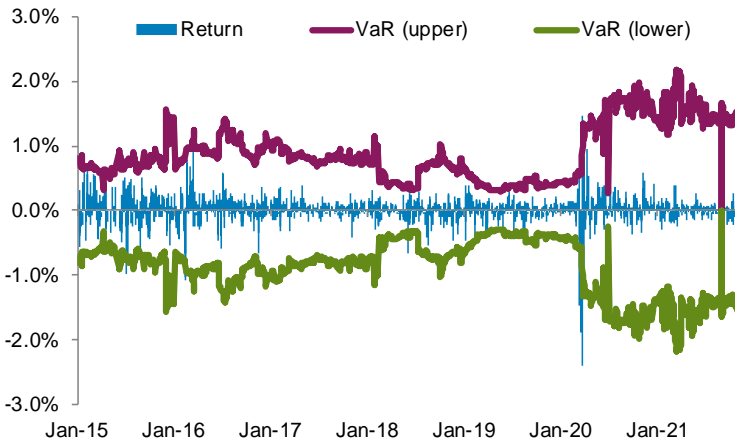
Cash exposure



Risk exposure

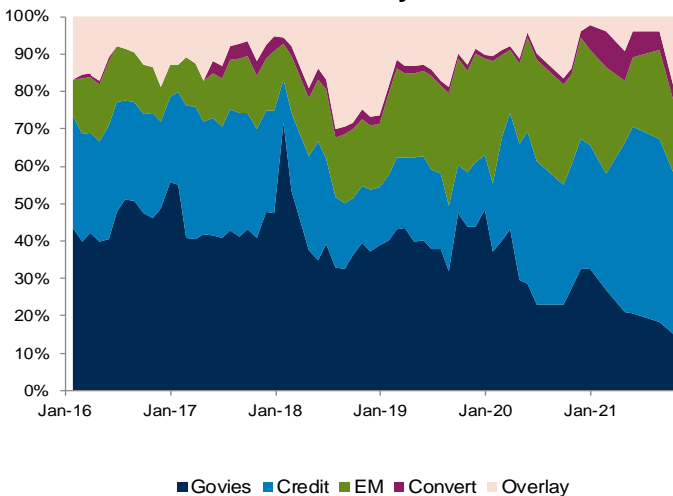


Returns vs VaR 99% 1d

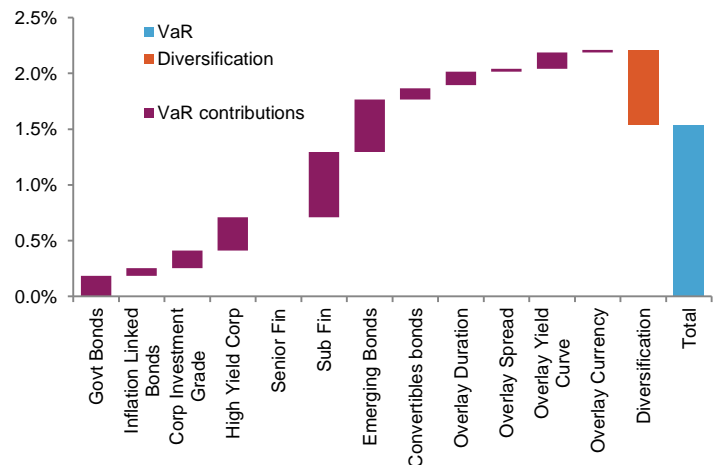


- › The Value at Risk_(99%,1 day) of the portfolio decreased to 1.54% (vs. 1.39% the previous month).
- › The increase in risk is mainly the result of a reduction of the diversified effect.

VaR breakdown by asset class



Diversification effect



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TERMS & CONDITIONS

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

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