MARKETING
COMMUNICATION

Edmond de Rothschild Fund Bond Allocation

A flexible approach amidst contrasting market dynamics

Since the start of the year, bond markets have been navigating a shifting macroeconomic environment as the world's major economies send out contradictory signals. With China up against American protectionist measures, and amid a global economic slowdown, the US economy - long thought to be resilient - now appears to be running out of steam. Fears of a recession in the US are gaining momentum, fuelled by the prospect of weaker consumer spending and a resurgence of inflation.

Investors must therefore manage divergent dynamics and limited visibility on interest rate pathways in the US. In this environment, flexible bond strategies are, in our view, as relevant as ever.

Nicolas Leprince
Portfolio Manager[1]

Julien Tisserand
Portfolio Manager

An active and flexible approach designed to capture cycle disruptions

EdR Fund Bond Allocation is a flexible fund managed according to a dual 'top-down' and 'bottom-up' approach, combining macroeconomic analysis and the investment team's convictions on each of the bond market segments. Risk management undergoes a strict discipline: currency risk is systematically hedged[2], high-yield and emerging debt cannot exceed more than 50% of the portfolio, and equity exposure - which can only be implemented via convertible bonds - is limited to 10% of net assets.

The fund's allocation focuses on three main areas[3]:

— Active interest rate management: the portfolio's modified duration can range between -2 and +8 depending on the teams' reading of the macro-economic environment.

— A broad investment universe: covering the full spectrum of the bond market, including sovereign debt, emerging debt, Investment Grade and High-Yield credit, and convertible bonds.

— Strategic diversification: with positions built on carry, duration, yield curve or relative value strategies, depending on the best opportunities available at the time.

This structure enables the fund managers to respond very quickly to market changes by adjusting their interest rate and credit exposures.

1. The identity of the managers presented in this document may change during the life of the product.

2. The currency risk arising from these investments is systematically hedged. However, residual exposure may remain.

3. The investment process described above incorporates various internal management constraints implemented by the management team. This is the current process, which may change over time.

A strategy able to address the new macroeconomic (im)balances

At the start of 2025, EdR Fund Bond Allocation benefited from the carry yield on credit as it was relatively immune to risk premiums and closed the month of February 1.37% higher (for the A-EUR share class)[4].

Nevertheless, March marked an inflection point following the US announcements on tariffs, the geopolitical turnaround over Ukraine, and the German recovery plan aimed at reducing reliance on the US. These different events caused rates to rise significantly, with 10-year German rates peaking at 2.90% before closing the month lower at 2.75%[5]. Meanwhile, uncertainties over inflation and economic growth in the US led to rising credit premiums. Combined, the effects on interest rates and premiums wiped the gains recorded in January and February.

« Over the past six months, the stability of the credit market has enabled the fund to leverage the performances of high-beta segments such as European High-Yield, hybrid corporate bonds, subordinated financial debt and emerging sovereign bonds. »

In response to the considerable adjustments across bond markets, the modified duration of EdR Fund Bond Allocation was purposely lowered to adapt the fund to a more volatile and uncertain market environment. Modified duration is currently maintained within a range of 4 to 5.5 years, while retaining some flexibility on duration to take advantage of movements on the yield curve, notably any steepening trends. This allows the fund managers to maintain the fund's exposure to rates, while keeping risks under control.

Cautious credit management[6]

On the credit front, EdR Fund Bond Allocation was able to capitalise on a relatively favourable environment in Europe. The monetary easing policy in Europe, with an accommodative ECB, should help mitigate the negative impacts on growth over the mid-term, thereby supporting the European credit market.

Interestingly, over the past six months, the stability of the credit market has enabled the fund to leverage the performances of high-beta[7] segments such as European High-Yield, hybrid corporate bonds, subordinated financial debt and emerging sovereign bonds. The Investment Grade segment, on the other hand, was managed actively with profit taking at the end of the year, followed by a gradual return to the sector at the beginning of 2025[8].

A present, we have maintained a bias in favour of Euro-denominated bonds, with a preference for European High-Yield and Investment Grade. The fund's exposure to subordinated financial debt and corporate hybrid debt was largely reduced, on account of narrowing spreads. As far as the fund's dollar exposure is concerned, these investments mostly involve emerging sovereign debt, which is supported by China and by hopes that geopolitical tensions will de-escalate.

A pertinent investment solution for a new macroeconomic paradigm

EdR Fund Bond Allocation therefore provides an effective response to a changing macroeconomic paradigm: diversification and active risk management. This flexible mindset has helped the fund to weather possible downturns while benefiting from opportunities specific to each bond segment.

4. Source: Edmond de Rothschild Asset Management (France), data as of 31/03/2025. Past performance is not a reliable indicator of future returns. Net performance of A-EUR share class over 10 years (annualised): 1.45% vs 0.32 for the index (50% Bloom Barclays EuroAgg Treas TR Value EUR +50 % Bloomberg Barclays Capital Euro Aggre Corp TR EUR). Performance of A-EUR share class at end February: 1.37 % vs 0.65 % for the benchmark.

5. Source: Bloomberg, data as end February 2025.

6. The investment process described above incorporates various internal management constraints implemented by the management team. This is the current process, which may change over time.

7. Beta is a measure of the volatility of a stock or portfolio relative to the market as a whole; a high beta indicates greater sensitivity to market movements.

8. The fund retains a risk of capital loss.

On account of the fund's active management and ability to respond quickly to market events, EdR Fund Bond Allocation is an interesting strategy for investors seeking risk-adjusted returns. Nonetheless, performances remain dependent on the accuracy of macroeconomic forecasts and on the tactical decisions that are made, in keeping with the fund's investment restrictions.

Glossary

- Investment Grade securities are bonds classified as "high quality" by the rating agencies.
- High Yield refers to corporate bonds with a higher default risk than Investment Grade bonds, but offering a higher coupon in return.
- Sensitivity is an indicator measuring the impact of a 1% fall or rise in interest rates on the value of the fund.
- Subordinated debt is debt whose repayment depends on the initial repayment of other creditors.
- Carry is a bond strategy in which the investor buys high-yield bonds while financing the purchase with a lower-rate loan, thereby taking advantage of the interest-rate differential.
- The duration of a bond, or any other fixed-rate financial instrument, is a measure of the sensitivity of the price to a change in interest rates.
- A risk premium is the additional remuneration paid to investors to compensate for the higher risk associated with an investment.
- A spread is the difference between two interest rates, yields or prices, often used to evaluate the additional cost associated with a different risk or quotation.

Fund characteristics*

Investment Objective: to offer an annualised performance exceeding its reference index composed of 50% of the Bloomberg Barclays Capital Euro Aggregate Corporate Total Return Index and 50% of the Bloomberg Barclays Capital Euro Aggregate Treasury Total Return Index over the investment period. The fund is actively managed.

Fund currency: EUR

Inception date: 30/12/2004

ISIN codes: A Share: LU1161527038 / I Share: LU1161526816

Subscription tax rate: A Share: 0.05% /I Share: 0.01%

Maximum management fees: A Share: 0.80% incl. all taxes /I Share: 0.40% incl. all taxes

Variable management fees: 15% of the annual outperformance vs. the benchmark

M**inimum initial subscription amount:** A Share: 1 unit / I Share: €500,000

Entry fees: A Share: Max. 1% / I Share: None

Exit fees: None

Benchmark: 50% of the Barclays Capital Euro Aggregate Corporate Total Return index and 50% of the Barclays Capital Euro Aggregate Treasury Total Return index

Recommended investment period: >3 years *The share classes presented in this document are the main EUR classes. The subfund also has classes in USD, GBP and CHF. For more information, please contact your sales contact. Please note that not all costs and share classes are disclosed in this documents. Please refer to the KID/prospectus for further details.

Disclaimer

Edmond de Rothschild Fund Bond Allocation is a subfund of the SICAV registered in Luxembourg and approved by the CSSF, and authorised for marketing in Austria, Switzerland, Germany, Spain, France, the United Kingdom, Italy, Luxembourg, Norway and Portugal. Please refer to the fund's prospectus and key information documents before making any final investment decision.

Main investment risks

Risk Indicator:

1	2	3	4	5	6	7

Risk Indicator: 2/7. The risk indicator rates this fund on a scale of 1 to 7. This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you. This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund. The risks described below are not exhaustive.

Risk of capital loss: The sub-fund is not guaranteed or protected. This means that the capital initially invested may not be returned in full even if subscribers hold their units over the entire recommended investment period.

Credit risk: The main risk is default by the issuer, either in terms of the non-payment of interest and/or the non redemption of capital. Credit risk is also linked to any deterioration in the creditworthiness of an issuer. The holder will note that the sub-fund's net asset value is likely to fall in the event a total loss is recorded on an operation following the default of a counterparty.

Credit risk related to investing in high-yield securities: The sub-fund may invest in the issues of countries or companies that are rated outside the "investment grade" category according to a rating agency (rating below BBB- on Standard & Poor's scale or an equivalent rating of another independent rating agency) or deemed equivalent by our investment firm. These speculative grade issues carry a higher risk of issuer default. This sub-fund must therefore be considered as partly speculative and addressing more specifically investors aware of the risks inherent in investing in these securities. As such, the use of "high-yield" securities (speculative-grade securities for which the issuer's default risk is higher) could lead to a bigger risk of decline in net asset value.

Interest rate risk: Exposure to fixed income products makes the subfund sensitive to interest rate fluctuations. Interest rate risk relates to a potential fall in the value of a security and therefore in the net asset value of the sub-fund in the event of a change in the yield curve.

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