Robeco SDG Credit Income Fund (AUD Hedged) – Class B

BENCHMARK
Benchmark Unaware

OBJECTIVE
The Fund aims to maximise current yield and income and seeks to meet the needs of investors who are targeting a consistent level of income.

APIR	ETL7701AU	**CLASS SIZE**	$6.4m
ARSN	644 635 594	**EXIT PRICE**	$0.8151
INCEPTION DATE	7 December 2020		

Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.
Fund	**0.12**	**-1.19**	**5.58**	**0.15**	**n/a**	**n/a**	**n/a**	**0.44**

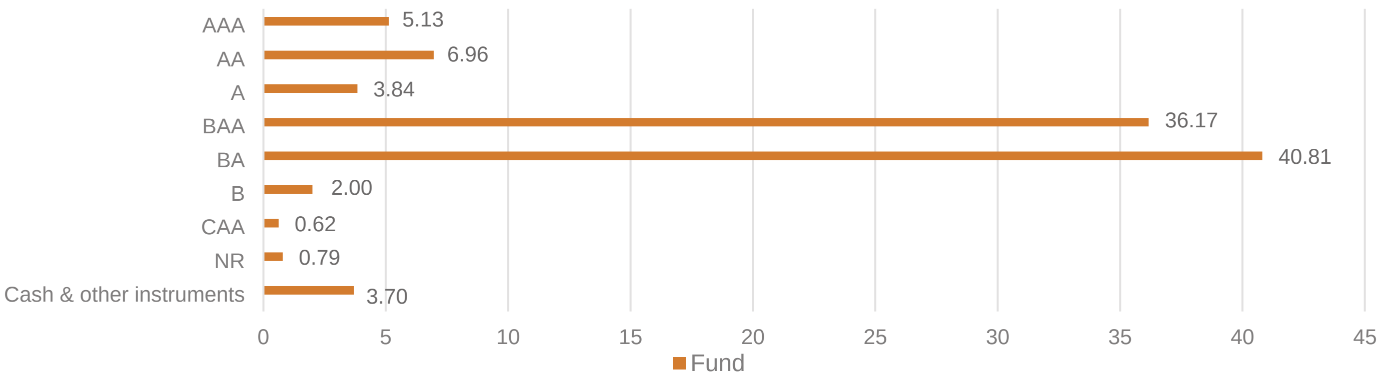
Sector allocation (%)[1]

Asset class	Fund
ABS	0.91
Agencies	4.81
CLO	2.97
Covered	0.48
Financials	39.19
Industrials	31.03
Sovereign	0.55
Supernational	0.00
Treasuries	8.26
Utilities	8.12
Cash and other instruments	3.70

Fund analysis (%)

Characteristics	Fund
No. of issuers	167
Average maturity	5.0
Spread duration (OASD in years)	3.0
Average credit rating	BAA2/BAA3
Yield to worst (hedged to AUD)	5.8%
Yield to Maturity (unhedged)	5.3%
Modified Duration (in years)	4.1

Index rating allocation (%)[1]



Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Returns are rounded to two decimal places. Slight variations to actual calculations may occur. Significant investor activity can impact performance returns in a fund or of a class of a fund.
[1]Totals may not equal due to rounding.

All currency references in the commentary below are in US dollar terms unless stated otherwise.

Market review

Global credit markets delivered negative total returns over the quarter. The rise in government bond yields was the main driver of this while credit spreads continued to tighten with EUR markets outperforming USD markets. Market developments included significant interest rate volatility and geopolitical events with the US presidential elections in November. In December, market turbulence intensified following a hawkish pivot from the Federal Reserve. French government bond spreads widened amid budgetary concerns and political uncertainty. The investment manager’s expectation is that in the coming quarters credit returns will be more driven by carry and roll down than by capital gains by spread compression. On a risk-adjusted basis higher spread instruments with lower duration will outperform versus broader market indices in the current environment. The only caveat is that you want to avoid defaults while reaching for these higher spreads. Subordinated bonds like hybrids, Tier 2, and CoCo bonds from investment grade rated institutions, are therefore preferred over senior bonds of high yield rated companies.

Politics, central bank policies and their impact on government bond yields were the most important themes driving markets in the past quarter. Although the Federal Reserve has cut an additional 0.50% b in the fourth quarter, expectations for future rate cuts were reduced significantly. This was driven by economic data which shows that the continued strength of the US economy. In addition, Federal Reserve meeting minutes and comments by officials show that the Federal Reserve will be patient with additional cuts. The five-year Treasury yield rose 0.82% over the quarter to 4.38%.

The most significant political development undoubtedly was the election of Donald Trump as the 47th US president. This election was positive for risk sentiment in the US, as Trump is perceived as business-friendly and markets tightened further from already tight levels. However, markets are worried about the longer-term impact on inflation and US government debt, which also partially explains the upward move in Treasury yields.

Another relevant political event was the collapse of the Barnier government in France, following a successful no-confidence vote. This upheaval widened OAT spreads to levels last seen during the Eurozone crisis in 2012. This did not lead to any significant market volatility in credit spreads and even spreads on French bank bonds hardly underperformed.

Before and since his election Trump has been very vocal on his plans to implement trade tariffs. This continues to be an overhang for sectors such as the automotive, a sector has recouped some of the losses from the third quarter but continues to trade at relatively wide levels.

In emerging markets although there has been some moderate weakness in Latin America. This was partly driven by potential trade tariffs, but also the domestic situation in countries like Brazil where the government continues to run high deficits. In Asia, markets continued to be well bid, although growth momentum in China remains relatively weak. The Central and Eastern Europe region did quite well as markets start to price in a potential end to the conflict between Russia and Ukraine.

Portfolio positioning

The fund can invest across global investment grade, high yield and emerging credit markets, with a focus on BBB and BB rated securities while exercising caution towards B and lower-rated exposures. In recent months, the fund has reduced its holdings in lower-rated bonds and selectively increased its BB exposure, driven by promising bottom-up issuer opportunities. Notably, the fund has also expanded its AAA exposure by investing in AAA CLO bonds as these bonds trade attractive compared to corporate bonds.

Bank and insurance debt continues to offer good value opportunities, but the investment manager has taken some profit on our senior bank debt positions while adding AT1 CoCo bank debt in instruments that offer a high reset spread. The investment manager also see good value opportunities in the European automotive sector which has been under pressure this years and spreads on bonds in this sector have widened quite significantly. The investment manager added to automotive names ZF Friedrichshafen, Adient, Volkswagen and Aptiv.

In the utility sector exposure was increased via hybrid bonds of Sempra and senior bonds of Slovakian utility EPH amongst others.

The fund has no explicit top-down country allocation; country allocation is driven by issuer selection. On the weakness in Latin America at the end of the quarter the fund has increased exposure in some issuers in this region. Also, in the CEE region there have been interesting bottom-up opportunities. Over the quarter the exposure to emerging markets has increased.

Interest rate duration is kept at 3.9 yrs. The investment manager prefers not to run significantly higher duration exposure given the risk for further volatility in rate markets. The average credit quality of the fund is investment grade (BAA2/BAA3).

The top 10 largest risk positions consist for a large part of holdings in the financials sectors, but there are also several non-financials in the top 10. CoCo bonds of Coventry Building Society were added as the bonds trade at an attractive spread while the business profile is relatively stable. In the automotive sector positions in Aptiv and IHO were increased, leading to top 10 positions for these companies.

Performance review

The Robeco SDG Credit Income Fund (AUD Hedged) – Class B (the 'Fund') delivered a (net) return of -1.19% for the quarter in Australian Dollar terms.

With the large move up in Treasury yields over the quarter, the fund's duration exposure had a large negative contribution to total return. The level of cash yield offered some protection. Contribution from credit exposure was positive over the quarter. Sector exposers in the banking and consumer non-cyclical sectors added the most to total returns whereas the exposure to the communication sector added the least. The exposure to Emerging Market corporate also contributed positively.

On issuer level the fund's holdings in mining company First Quantum, National Bank of Greece, Deutsche and Erste bank were among the largest positive contributors.

First Quantum is still in dispute with the Panama government, however the company reported strong results driving spreads tighter. IHO printed bonds when the automotive sector spreads peaked early October, the fund participated, and bonds have rallied subsequently. National Bank of Greece did well in line with the broader Greek bank sector, which has seen several rating upgrades in recent months in improving profitability. Subordinated bonds of Deutsche Bank did well, which is a reflection of the strong performance of subordinated bank bonds. This also applies to Erste Bank, which also benefited from markets pricing in an end of the war in Ukraine conflict.

Biggest negative contributors were positions in two operating companies of the Adani group. These widened on allegations of bribery against members of the Adani family. The allegations are not related to the renewable energy projects in operating companies in which the fund is invested.

Braskem bonds were slightly weaker as Latin American spreads were weaker in the last part of the quarter. Convertibles of Helios (HTA) were slightly weaker, although the company posted strong results and moved full year guidance to the upper end of previous guidance. National Bank of Kuwait lagged the market, the bank's senior rating was confirmed at A+ by Fitch.

Market outlook

Market indices show that credit markets are trading close to historical tight levels. From current levels not a lot of tightening is to be expected. With potential risk from the macro and geopolitical side there could be potential spikes in spreads, but these will most likely be short lived as the economy remains robust.

Credit returns will be more driven by carry and roll down than by capital driven by spread compression. On a risk adjusted basis higher spread instruments with lower duration will outperform versus broader market indices in the current environment. Subordinated instruments like CoCo bonds and corporate hybrids are still attractive, but investors should focus on instruments with high call likelihood.

So far there have been little pockets of weakness, but it is remarkable that the rise in Treasury yields has not impacted credit markets. In corporate high yield there are still many companies in the lower rating categories with heavily indebted balance sheets. There has been little stress in this part of the market, and the investment manager would be careful on adding risk. Also, the real estate sector, which benefited from the decline in yields earlier, has not given up any of the earlier gains and could be vulnerable going forward.

The plans of the new government will in the short term be supportive for growth but will add to inflationary pressure. Therefore, the investment manager sees potential upward pressure on yields, while the chances of a large move lower are not very high given the robustness of the economy. The investment manager expects volatility in treasury yields to remain high in the coming period.

Issued by Ironbark Asset Management (Fund Services) Limited ABN 63 116 232 154 AFSL 298626 ('Ironbark'). Ironbark is the responsible entity for the Fund(s) referred to in this document. The relevant target market determination (TMD) and offer document for the Fund(s) is available from www.ironbarkam.com/our-funds/ or by calling Ironbark on 1800 034 402. This document contains general information only and is not intended to represent specific investment or professional advice. The information does not take into account an individual's personal financial circumstances, objectives or needs. Before making an investment decision, you should consider obtaining professional investment advice that takes into account your personal circumstances and should read the current TMD and offer document before making an investment decision to acquire or to continue to hold units in the Fund. Ironbark and its representatives believe that the information in this document is correct at the time of compilation, but no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors or omissions (including responsibility to any person due to negligence) is accepted by Ironbark. To the extent permitted by law, Ironbark, its employees, consultants, advisers, officers and representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this document. While any forecasts, estimates and opinions in this material are made on a reasonable basis, actual future results and operations may differ materially from the forecasts, estimates and opinions set out in this material. No guarantee as to the repayment of capital or the performance of any product or rate of return referred to in this material is made by Ironbark. Past performance is not a reliable indicator of future performance. All currency references are shown in Australian dollars unless stated otherwise. All indices are copyrighted by and proprietary to the issuer of the index. Any investment is subject to investment risk, including delays on the payment of withdrawal proceeds and the loss of income or the principal invested. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. No part of this material may be reproduced or distributed in any manner without the prior written permission of Ironbark. © Copyright 2024 Ironbark Asset Management Pty Ltd (Ironbark) (ABN 53 136 679 420).