



**Ofi invest**  
Asset Management



JULY 2023

# EURO HIGH YIELD

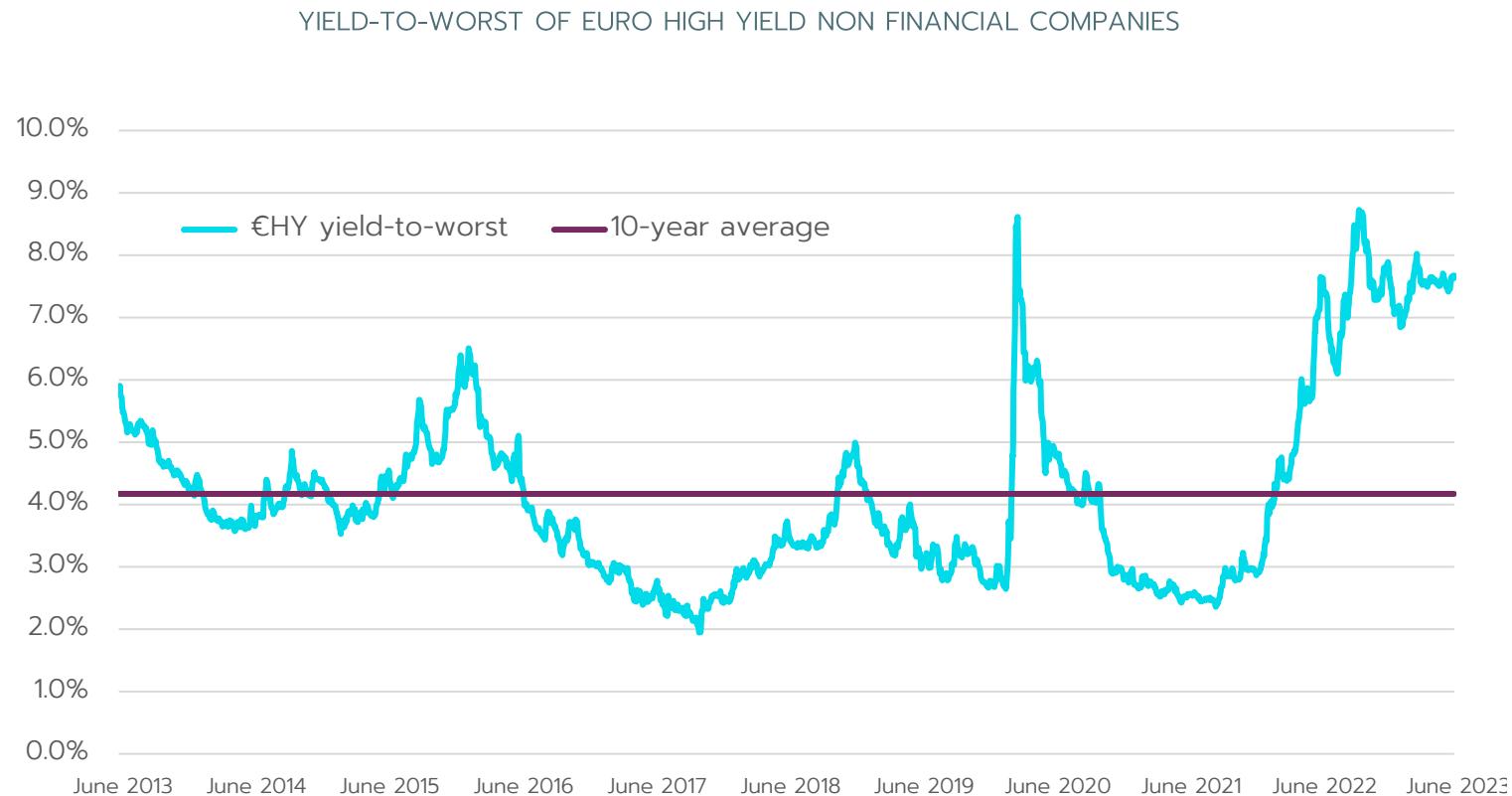
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## A YEAR FOR THE CARRY

THE ASSET CLASS BENEFITS FROM ITS RECORD-HIGH CARRY, WHILE CREDIT PREMIUMS HAVE FALLEN SLIGHTLY YEAR-TO-DATE, AND RATES ARE AT END-2022 LEVELS

	June	Year To Date	Yield To Worst (%)
HEAE INDEX	0.67%	4.77%	7.56
BB	0.66%	4.36%	6.24
B	0.81%	6.09%	8.25
CCC	0.94%	2.11%	16.13
Hybrid	0.55%	3.42%	6.79
Xover	1.75%	6.44%	4.00
HOAO	1.63%	5.41%	8.63

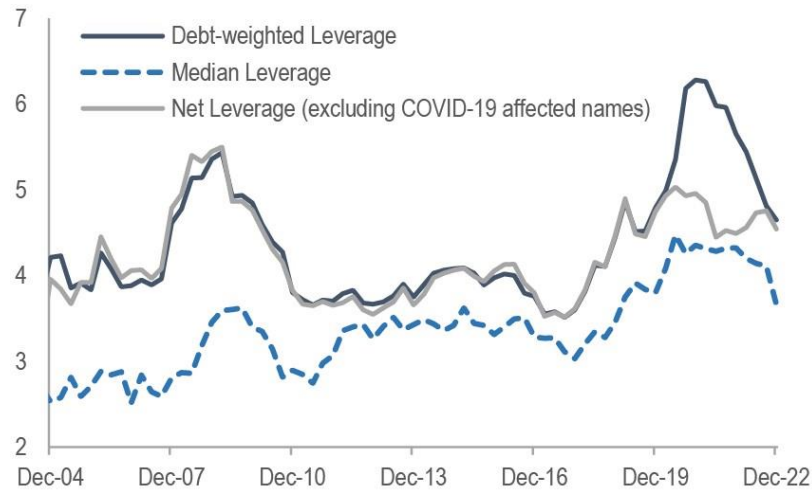


Source : Boa, Ofi Invest Asset Management, June 30, 2023

## EURO HIGH YIELD COMPANIES IN GOOD FINANCIAL HEALTH (1/2)

RECENT RESULTS HAVE CONFIRMED THE IMPROVEMENT IN CREDIT RATIOS, UNDERPINNED BY PRUDENT MANAGEMENT POLICIES. THE OUTLOOK FOR 2023 IS BETTER THAN EXPECTED AT THE BEGINNING OF THE YEAR

EUROPEAN YIELD ISSUER NET LEVERAGE



Source : JPM, June 13, 2023

ANNOUNCED MERGERS AND ACQUISITIONS TRANSACTIONS



Source : Morgan Stanley, July 10, 2023

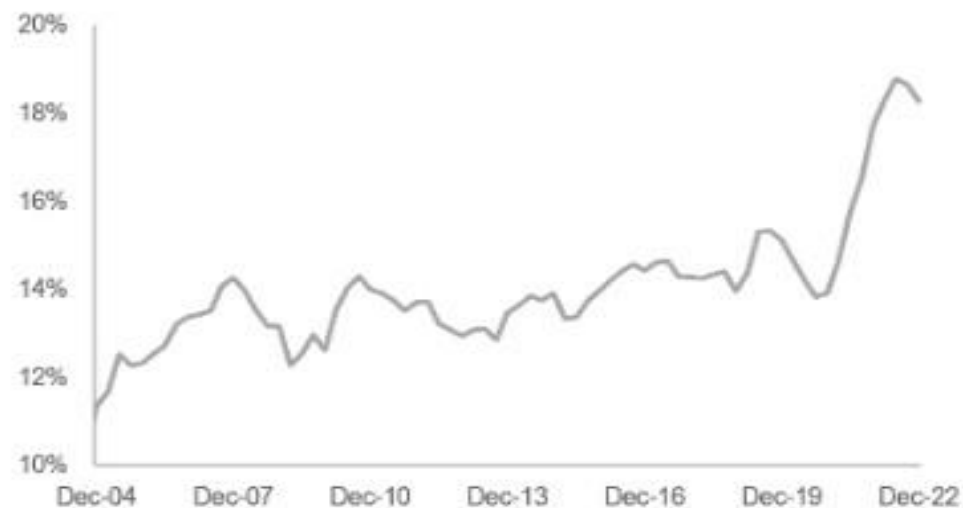
**Leverage returned to very satisfactory levels for the high-yield market**

**Sharp drop in mergers and acquisitions helped improve credit profiles**

## EURO HIGH YIELD COMPANIES IN GOOD FINANCIAL HEALTH (2/2)

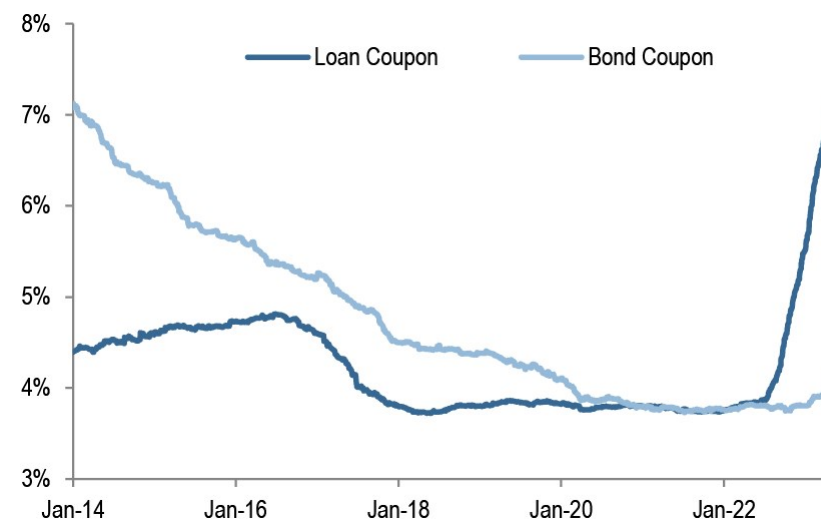
HIGH MARGINS PROTECT COMPANIES FROM AN UNCERTAIN ECONOMIC ENVIRONMENT, WHILE FIXED COUPONS LIMIT THE IMPACT OF RISING INTEREST RATES

EBITDA MARGINS %



Source : JPM, April 20, 2023

Corporate margins at a record high in Europe

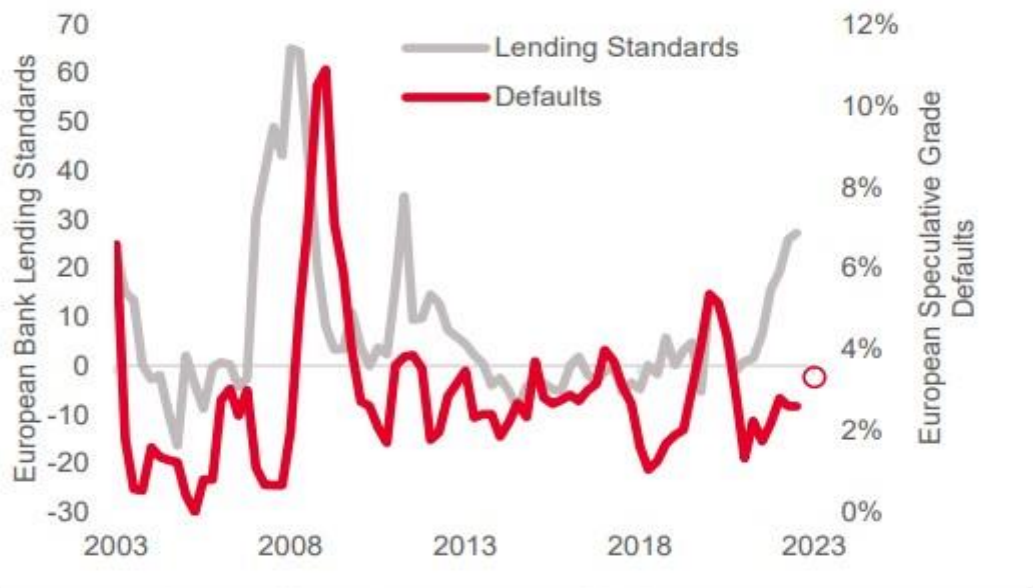


Source : JPM, June 13, 2023

Bond coupons have reached 4.1% from a cycle low of 3.75%

# A MODERATE RISE IN DEFAULT RATES EXPECTED

GIVEN LOW REFINANCING NEEDS, RESTRICTIVE MONETARY POLICY HAVE A LIMITED EFFECT IN THE SHORT TERM. COUPLED WITH SOLID CREDIT PROFILES, THIS SHOULD MODERATE THE RISE IN THE DEFAULT RATE IN THE SHORT TERM

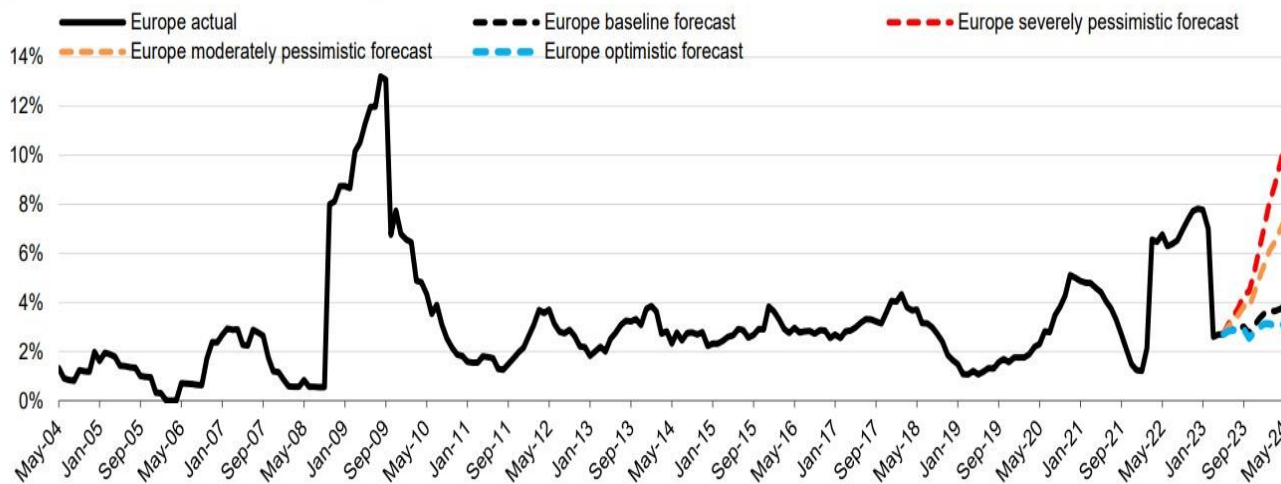


Source : SG, May 20, 2023

**Despite tightening credit conditions, default rates should remain moderate**

Exhibit 12

European speculative-grade default rates (actual and forecast)



Source : Moody's, June 15, 2023

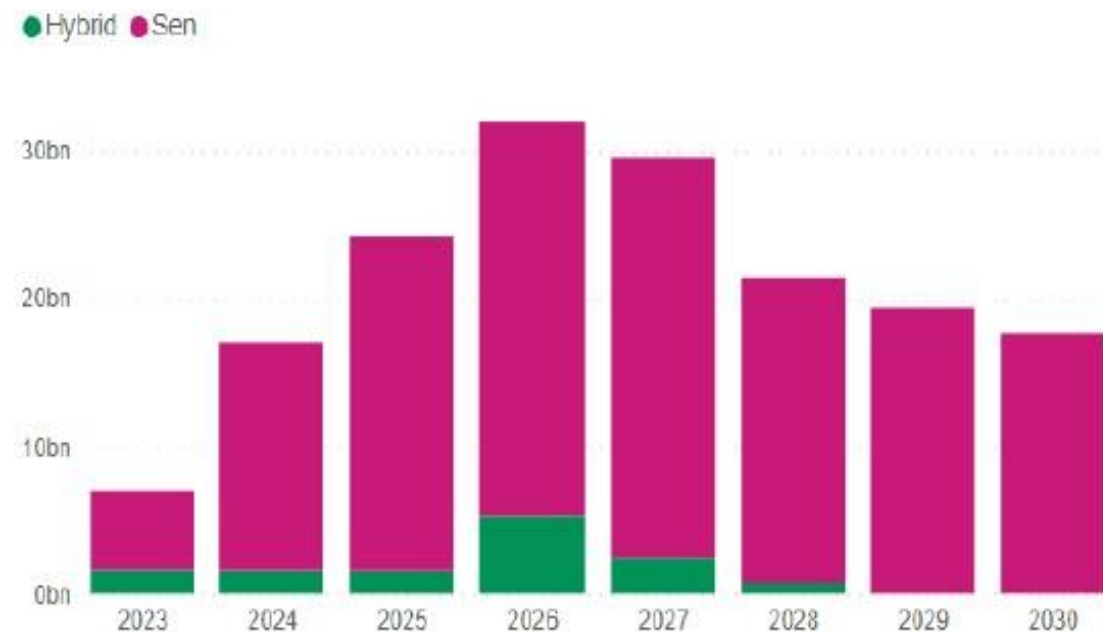
**Moody's expect the 12-m default rate to remain below 4%**

## FOCUS ON REAL ESTATE

REAL ESTATE COMPANIES REMAIN IN DIFFICULTY, BUT THE PROBLEMS SEEM TO BE CONFINED TO A FEW ISSUERS (SBB, SIGNA, DEMIRE, CITYCON HYBRID, HEIMSTADEN HYBRID) WITH LIMITED RISK OF SPREADING TO THE REST OF THE HIGH YIELD SECTOR

		EURO HIGH YIELD (€bn)			
Sector	% of €HY	Face Value	Distressed	Distressed Ratio	Share of Distressed Debt
Real Estate	5.0%	21.0	10.4	49.7%	57.2%
Retail	3.9%	16.5	3.1	18.5%	16.8%
Consumer and Business Services	6.3%	26.3	2.8	10.6%	15.3%
Telecommunications	12.2%	51.1	2.5	4.9%	13.7%
Capital Goods	5.6%	23.7	2.5	10.4%	13.5%
Basic Industry	6.5%	27.1	2.1	7.9%	11.7%
Financial Services	3.8%	16.0	1.5	9.3%	8.2%
Media	2.1%	8.8	1.0	11.4%	5.5%
Leisure	3.7%	15.6	0.7	4.8%	4.1%
Consumer Goods	2.4%	10.2	0.7	6.7%	3.8%
Energy	2.8%	11.7	0.6	5.1%	3.3%
Utility	6.9%	28.9	0.3	1.0%	1.5%
Automotive	9.5%	39.8	0.3	0.7%	1.5%
Healthcare	7.4%	31.0	0.3	0.8%	1.4%
Banking	12.3%	51.4	0.0	0.0%	0.0%
Insurance	0.8%	3.5	0.0	0.0%	0.0%
Technology & Electronics	4.6%	19.2	0.0	0.0%	0.0%
Transportation	4.3%	18.0	0.0	0.0%	0.0%

Source : DB, May 31, 2023



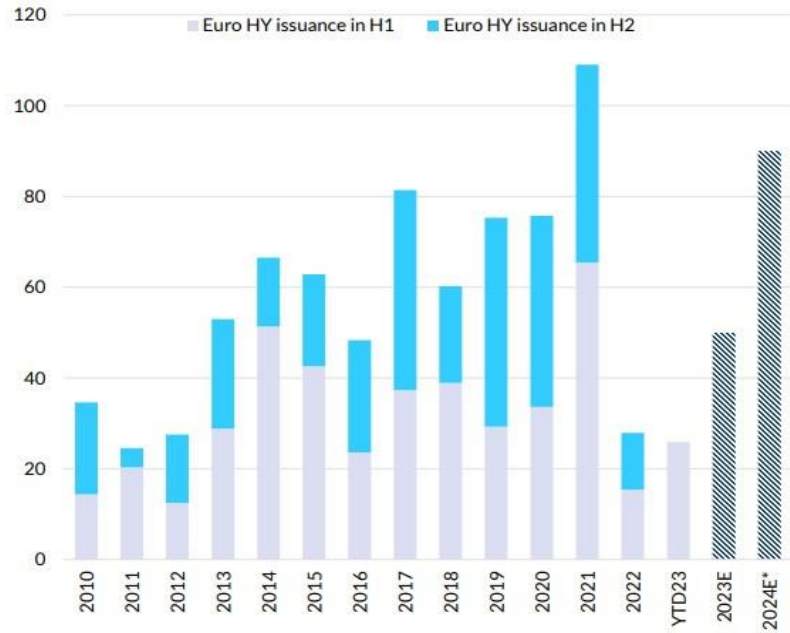
Source : CACIB, May 24, 2023

Real estate accounts for nearly 60% of stressed bonds on the HY€ market

Bond maturities on European real estate are high in the short term, while the business model has not yet stabilized.

# TECHNICAL FACTORS ON PAUSE... FOR NOW

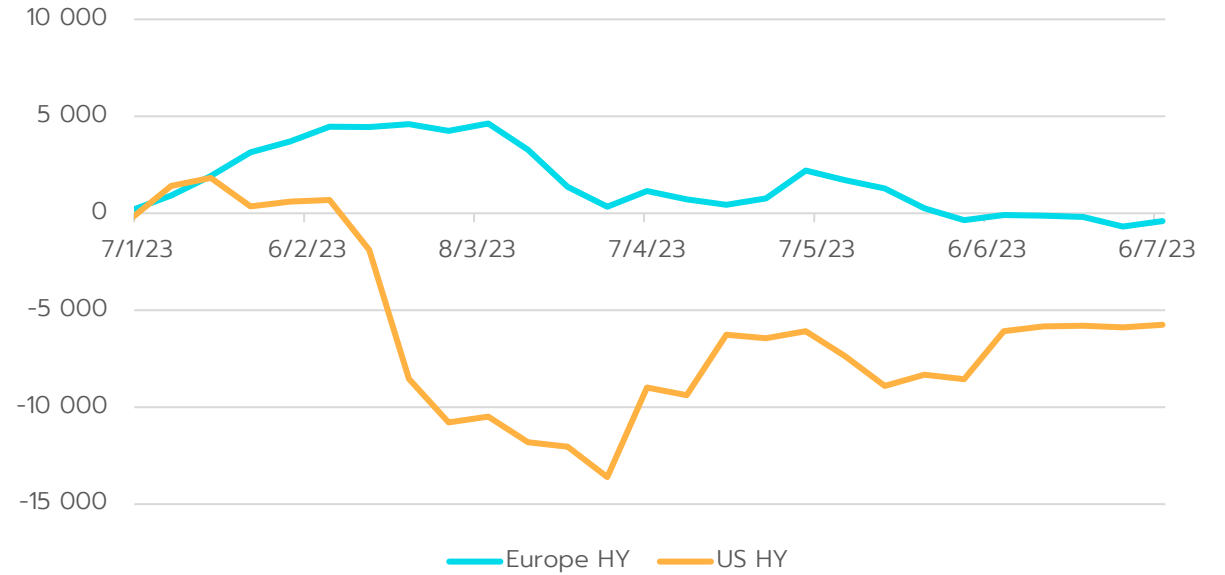
## COMPANIES RETURN SLOWLY TO THE HIGH-YIELD MARKET (PRIMARY MARKET IN € BILLIONS)



Source : Creditsights, June 28, 2023

## AS WELL AS INVESTORS

### Inflows & Outflows in \$ in Europe and US (ETF + UCIs)

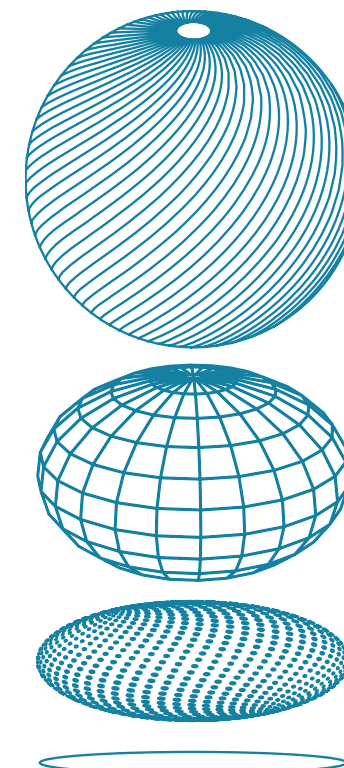


Sources : BOA, EPFR, July 7, 2023

## KEY MESSAGES

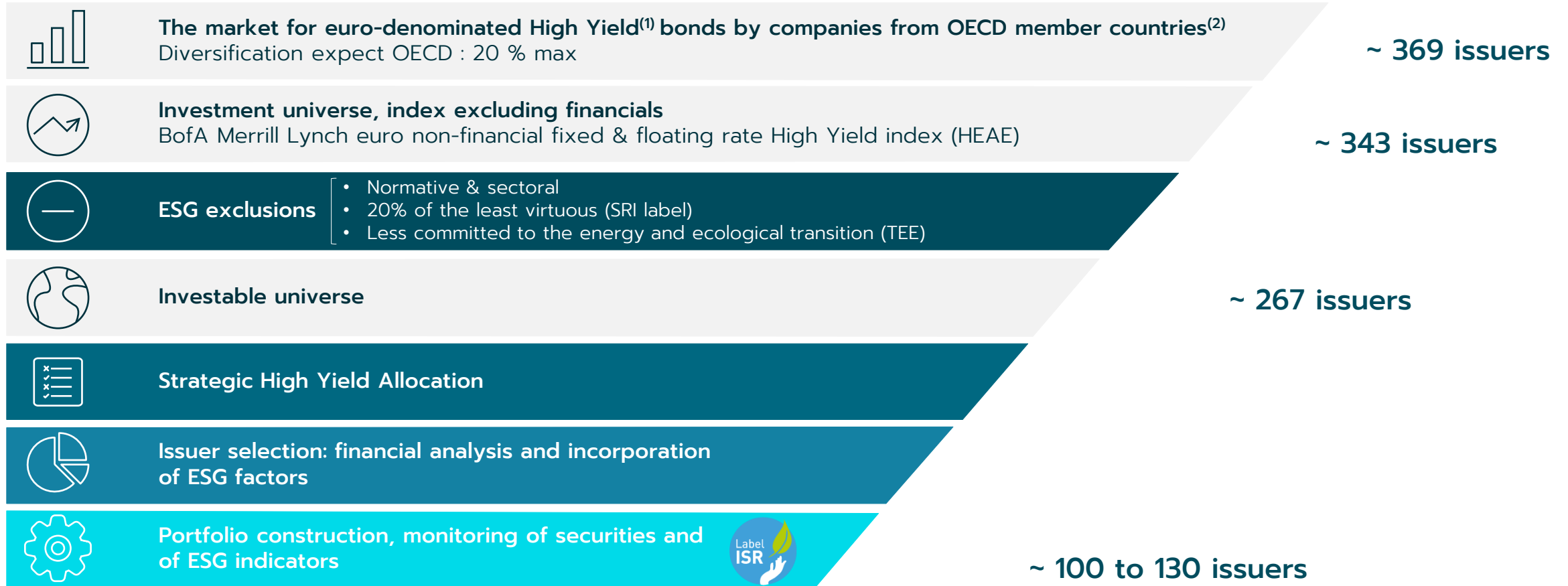
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- The market posted an excellent performance year-to-date, linked to the carry of the asset class. The slow normalization of inflation is keeping spreads and rates at high levels.
- Corporate earnings are of good quality, and their credit profile is relatively defensive, to guard against a possible acceleration of the slowdown, now postponed to 2024.
- Against this economic backdrop, our message remains constructive on the asset class, particularly via BBs. However, discernment between issuers remains key.
- At around 7.5% yield at worst, carry remains very attractive on the asset class, despite the gradual rise in default rates on the most fragile issuers.
- We do not rule out new periods of stress on credit spreads at H2 2023, given inflation levels and the lack of visibility on the extent and duration of the economy's entry into recession.





## A RESPONSIBLE APPROACH WITH HIGH SELECTIVITY



(1) Speculative High Yield bonds have lower credit ratings (from BB+ to D according to Standard & Poor's and Fitch, and from C to Ba1 according to Moody's) than Investment Grade bonds (which are rated from AAA to BBB- according to Standard & Poor's and Fitch, and from Baa3 to Aaa according to Moody's) as their issuers are in poorer financial health according to research by the rating agencies. They are therefore regarded as riskier by the rating agencies and, accordingly, offer higher yields.

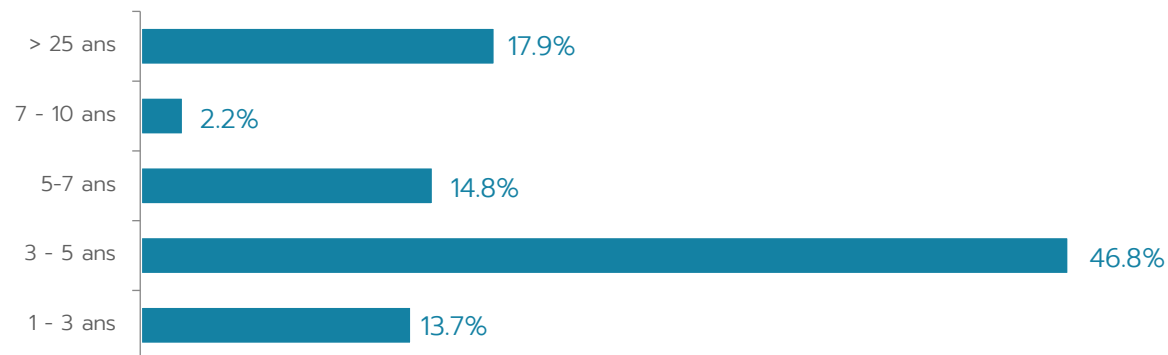
(2) The fund may also invest in the same way in forward financial instruments such as credit derivatives (CDS, CDS indices), and up to 10% of its assets in shares of private companies in OECD countries.

# OFI INVEST ESG EURO HIGH YIELD AS AT 30/06/2023

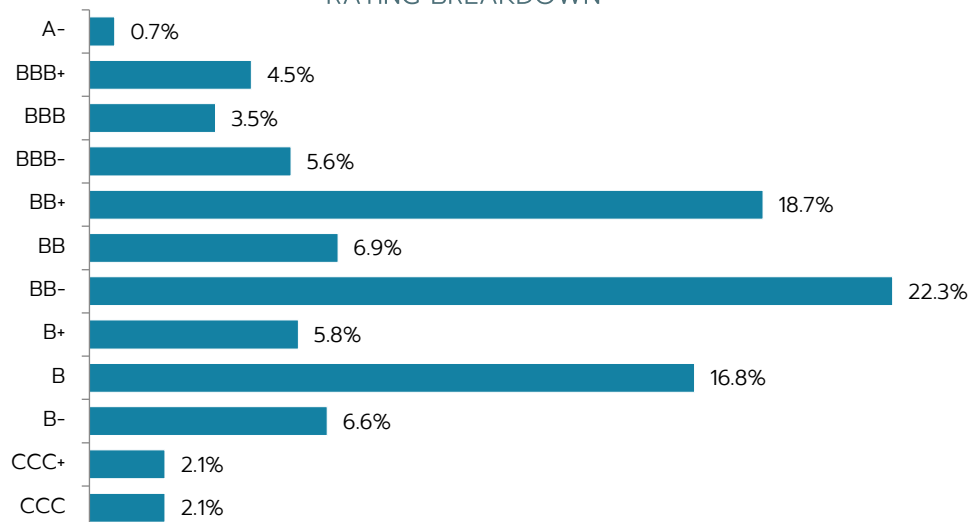
## KEY FIGURES

Investment rate	95.4%
Rate sensitivity	3.1
Average spread <sup>(1)</sup>	373 bp
Average Rating	BB-
Yield to Worst <sup>(2)</sup>	6.8 %

## MATURITY BREAKDOWN



## RATING BREAKDOWN



## TOP 10

TELECOM ITALIA 6.875 2028_02	1,6%
VERISURE 7.125 2028_02	1,6%
EDF 3.000 PERP	1,5%
GRIFOLS 3.875 2028_10	1,4%
DEUTSCHE LUFTHANSA 3.750 2028_02	1,3%
SAIPEM 3.375 2026_07	1,3%
ACCOR 2.625 PERP	1,2%
LOXAM 5.750 2027_07	1,2%
IHO 8.750 2028_05	1,2%
KPN 6.000 PERP	1,1%

# OFI INVEST ESG EURO HIGH YIELD (GI SHARE CLASS) AS AT 30/06/2023

- Net asset value : €108.37
- Net assets under management : €168.2m

## CUMULATIVE NET PERFORMANCE



	3 months	6 months	Since inception	1 year rolling	3 years rolling	5 years rolling
Ofi Invest ESG Euro High Yield	2.16%	3,88%	8.37%	12,76%	5.02%	8.35%
Benchmark <sup>(1)</sup>	1.60%	3,12%	6.91%	9.58%	4.22%	6.91%



Source: Ofi Invest Asset Management as at 30/06/2023.  
 Past performance is no guarantee of future performance.  
 (1) Merrill Lynch Euro Non-Financial Fixed & Floating Rate High Yield.

## MAIN CHARACTERISTICS

Fund name	Ofi Invest ESG Euro High Yield
ISIN code	GI unit: FR0013274966 / GR unit: FR0013274974
Fund managers	Maud BERT – Marc BLANC
Fund inception date	29/08/2017
Investment objective	The Fund's objective is to outperform the Merrill Lynch Euro Non-Financial Fixed & Floating Rate High Yield Index, calculated in euro on all units over the recommended investment horizon, by favouring securities of issuers taking an active approach to the energy and ecological transition.
Investment universe	All the securities of the benchmark index
Benchmark index	Bank Of America Merrill Lynch Euro Non-Financial Fixed & Floating Rate High Yield Index
Investment horizon	More than 3 years
SFDR category <sup>(2)</sup>	Article 8
External financial management and administrative fees incl. tax	GI units: 1,10% maximum / GR units: 1,80% maximum
Maximum transaction fee <sup>(3)</sup>	From €0 to €450 excl. tax
Maximum front-end fee incl. tax	2%

### RISK PROFILE<sup>(1)</sup>

Lower risk

Higher risk



<sup>(1)</sup> The risk indicator is based on the assumption that you will hold the product for the full recommended holding period. Actual risk may differ if you opt to withdraw before the end of the recommended holding period, and you may obtain less in return. The synthetic risk indicator assesses the product's risk level in relation to other products. It is an indication of the likelihood that this product will incur losses in the event of market movements or if we are unable to pay out.

This product does not offer protection against market fluctuations, so you may lose some or all of your investment.

<sup>(2)</sup> REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector

<sup>(3)</sup> Refer to the fund's prospectus for more details. These fees are collected by the depository/custodian.

## MAIN RISKS

### CAPITAL RISK AND PERFORMANCE RISK

The investor is advised that the performance of the UCITS might not conform to their objectives and that their capital might not be returned in full, the UCITS not benefiting from any guarantee or protection of capital invested.

### INTEREST RATE RISK

Because of its composition, the UCITS may be subject to an interest rate risk. This risk results from the fact that, in general, the price of debt securities and bonds falls when rates rise. The investor in bonds or other fixed-income securities may record negative performances as a result of fluctuations in interest rates.

### CREDIT RISK

In the case of downgrading of private issuers (for example, of their rating by financial rating agencies), or of public issuers, or their defaulting, the value of private bonds may fall. The net asset value of the UCITS would then be affected by this drop.

### HIGH YIELD RISK

This is the credit risk applied to what are known as "speculative" securities which present probabilities of default higher than those of Investment Grade securities. In return, they offer higher levels of return, but can, in the case of downgrading of the rating, significantly reduce the net asset value of the UCITS. The unrated signatures which are selected will, for the most part, come under this category in the same way and may present equivalent or greater risks because of their unrated nature.

### COUNTERPARTY RISK

This is the risk associated with use by the UCITS of futures, OTC instruments and/or resorting to acquisitions and temporary purchase and sale of securities. These transactions concluded with one or more eligible counterparties potentially expose the UCITS to a risk of defaulting of one of these counterparties possibly resulting in failure to pay which will reduce the net asset value.

### EMERGING MARKETS RISK

The conditions of functioning and supervision of the emerging markets may deviate from standards prevailing on major international markets: information about certain securities may be incomplete and their liquidity more reduced. Evolution in the price of these securities may therefore vary markedly and significantly impact the net asset value.

### SUSTAINABILITY RISK

Sustainability risks are primarily related to climate events resulting from climate change (known as physical risks), the ability of companies to respond to climate change (known as transition risks) and which may result in unanticipated losses affecting the mutual fund's investments and financial performance. Social events (inequalities, labour relations, investment in human capital, accident prevention, changes in consumer behaviour, etc.) or governance gaps (recurrent and significant breach of international agreements, corruption, product quality and safety and sales practices) can also translate into sustainability risks.

Consequently, the investor may be exposed to the following risk:

### EQUITY RISK

If the shares to which the portfolio is exposed fall, the net asset value of the fund may fall. The UCITS may also be exposed to convertible bonds; these may display a residual share sensitivity and experience marked fluctuations linked to changes in the prices of the underlying shares. The investor's attention is drawn to the fact that the net asset value of the UCITS will drop in the case of an unfavourable change.

For more information on the management company's sustainability risk integration policies and details of ancillary risks, investors are invited to visit [www.ofi-invest-am.com](http://www.ofi-invest-am.com).

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