



For professional UK investors only

## Liontrust GF High Yield Bond Fund

### Q4 2022 review

Fund managers: Phil Milburn and Donald Phillips.

**The Fund (C5 sterling accumulation class) returned 5.8%\* in sterling terms in Q4 2022 while the ICE Bank of America Merrill Lynch Global High Yield Index (GBP hedged) comparator benchmark returned 4.8% and the average return for the IA Sterling High Yield reference sector was 4.8%. The primary B5 US dollar share class returned 6.1%, while the ICE Bank of America Merrill Lynch Global High Yield Index (USD hedged) comparator benchmark returned 5.2% and the average return for the EAA Fund USD High Yield Bond (Morningstar) reference sector was 5.9%.**

**We also compare the Fund's performance to a leading Global High Yield ETF (seeking to outperform by 1.5% a year)<sup>†</sup>. The Fund's C5 sterling shares class return was ahead of that of the ETF in Q4 and has now slightly outperformed it since inception (June 2018).**

In Q4, the global high yield market returned 5.2% (US dollar terms), its first positive quarter in 2022. The US high yield market produced a return of 4.0% and in Europe the market returned 5.6%. Both markets performed well, primarily on the back of expectations that we may be closer to the top of the interest rate cycle amid easing inflation concerns. Performance was also supported by relatively good corporate earnings and limited primary supply providing a strong technical rally.

The US and European high yield markets in Q4 both saw BB and B bonds significantly outperform CCCs, which is also reflective of the pattern we have seen for the full year, where better quality bonds outperformed lower quality bonds.

During 2022, investors contended with a climb in inflation, the Russia-Ukraine conflict, a rapid pace of monetary tightening, increasing global growth concerns, and significantly higher government bond yields. Not surprisingly, these tough conditions produced a challenging backdrop for returns.

Relative to the index, the best performing sector in the Fund in Q4 was telecoms, followed closely by capital goods and healthcare. Our preference for higher quality and less cyclical sectors skew us towards slightly longer duration in our credit selection than our index, which has worked in our favour this quarter. Decent contributors to stock-picking include UK life insurance companies Rothesay and Phoenix as we saw sterling denominated names come back into favour after Kwasi Kwarteng's 'mini budget' was reversed, pharmaceutical company Cheplapharm, packaging company Ardagh, and industrial equipment manufacturer Howden. Howden being taken over by Chart Industries; it was a CCC-rated 11% coupon bond that we sold above the call price to lock in a positive total return.

Our real estate exposure has been a slight drag to performance this quarter. As a reminder, we do not have exposure to Chinese real estate so our exposure to the sector is underweight versus the index. We have exposure to highly rated northern European real estate names, diversified by both geography and end use.

During Q4 the Fund participated in one new issue: House of HR. This company operates across Europe and provides HR solutions to a wide scope of industries. It is a credit we have previously held and has since come back to the market to fund its acquisition by Bain Capital. It has a strong business model, ability to pass through costs to customers and generates a healthy level of cashflow. The euro-denominated bond is rated B2 and came with an attractive coupon of 9% and at a discount to par offered a yield of around 10.5%.

We also purchased a few new holdings in the Fund. South African company Sappi produces a diverse range of products including coated woodfree paper, dissolving wood pulp and speciality packaging. The packaging part of the business provides a defensive and growing source of revenues, while the paper segment is in structural decline but currently benefitting from strong pricing power due to market supply dynamics. Management's more recent announcements of asset sales, improved future guidance and tender for outstanding 2026 bonds in efforts to deleverage the business are all taken positively and provides us additional comfort around the credit. This is a euro-denominated, Ba2/BB- rated bond with 3.625% coupon trading in the mid-80s.

Another new holding is Sirius Media, a US satellite radio subscription business. The company generates a healthy level of cash, has high margins, and the subscription model means revenues are predictable and it has a strong level of liquidity. Overall, the company is in a good financial position to deal with potential headwinds. The bonds we own are US dollar-denominated, 4% coupon, with a 6.75% yield and are rated Ba3/BB.

Finally, Fortescue Metals Group was also added to the Fund in Q4. The company is an Australian miner of iron ore, sending the vast majority of its mined product to China. It is listed and has a decent equity cushion, strong credit metrics and is investing heavily to meet net zero (scope 1&2) targets by 2030. We own the US dollar-denominated, 6.125% coupon, Ba1/BB+ rated green bonds.

### **Outlook**

Over the past year, the global high yield market has suffered from a volatile macro backdrop brought on by several factors including geopolitical issues, the energy crisis and central banks trying to combat high inflation amongst others.

In 2022, the market environment has punished bonds both across sectors and the credit rating spectrum, but we believe this will turn in the coming year. We have been investing in bonds based on strong corporate fundamentals and value and have a bias towards high quality defensive credits. We have minimal exposure to cyclical credits. We think our Fund is well positioned to withstand the mild recessionary period we are expecting to enter into in 2023.

Corporate fundamentals are strong and likely to erode off a strong base, while default rates are still very low. There is no major refinancing wall to address for companies and we believe there is sufficient demand to meet any increase in primary bond issuance versus last year. Taking these points into consideration, we expect the coming year to have a different story, where fundamentals and idiosyncratic themes come back into focus was a key driver of performance and, therefore, we expect to see more dispersion in the market.

The global high yield market has never had two consecutive years of negative total returns. We expect 2023 to follow this trend and result in positive return. Our Fund is currently offering a yield of almost 10% for sterling investors (closer to 8% for euro investors), which we view as an attractive entry point. Our bias towards, defensive, better quality, liquid, listed names should put us in a good position as we progress through 2023. We have slowly increased our cash balance going into the new year by selling some bonds into the Q4 rally and so we have enough cash to put to work for any opportunities that arise during periods of market volatility.

**Discrete 12 month performance to last quarter end (%)\*\*:**  
**Past Performance does not predict future returns**

	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust GF High Yield Bond C5 Acc GBP	-13.2%	3.9%	4.0%	13.8%
ICE BofA Global High Yield Hedge GBP	-12.6%	2.8%	5.1%	12.3%

\*Source: Financial Express, as at 31.12.22, total return (net of fees and interest reinvested).

\*\*Source: Financial Express, C5 share class, total return, net of fees and interest reinvested. As at 31.12.22. The primary share class for this Fund is in US dollars (B5) but we are showing the C5 sterling-hedged class to compare against the IA Sterling High Yield sector. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio.

†While the managers of the Fund seek to outperform a leading Global High Yield ETF by 1.5% a year net of fees over rolling three years, this is not a formal objective. There can be no guarantees this will be achieved over the stated time period. The formal objective of the Fund can be found in the Prospectus.

**Key Features of the Liontrust GF High Yield Bond Fund**

Investment objective & policy <sup>1</sup>	The investment objective of the Fund is to maximise total returns over the long term through a combination of income and capital growth, through investment in the global fixed income market. The Fund invests at least 50% of its assets in high yield bonds (i.e. bonds classified as below investment grade) issued by companies worldwide which are denominated in US Dollar or non-US Dollar bonds that are hedged back into US Dollar. Although the focus is on high yield corporate bonds, the Fund may also invest in investment grade corporate bonds, government bonds, cash or assets that can be turned into cash quickly. The Fund invests in developed and emerging markets, with a maximum of 20% of its net assets invested in emerging markets. Where the Fund invests in non-US Dollar assets, the currency exposure of these investments will generally be hedged back to US Dollar. Up to 5% of the Fund's currency exposure may not be hedged (i.e. the Fund may be exposed to the risks of investing in another currency for up to 5% of its assets).The Fund may invest both directly, and through the use of derivatives. The use of derivatives may generate market leverage (i.e. where the Fund takes market exposure in excess of the value of its assets). The Fund has both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund. The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRRI) <sup>2</sup>	4
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to the ICE BofAML Global High Yield Hedge USD Index (the "Benchmark") by virtue of the fact that it uses the Benchmark for performance comparison purposes. The Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.
Sustainability profile	The Fund is a financial product subject to Article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Notes: 1. As specified in the KIID of the fund; 2. SRRI = Synthetic Risk and Reward Indicator. Please refer to the KIID for further detail on how this is calculated.

For a comprehensive list of common financial words and terms, see our glossary at:  
<https://www.liontrust.co.uk/glossary>

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#### **Key Risks:**

**Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.**

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Investment in the GF High Yield Bond Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The value of fixed income securities will fall if the issuer is unable to repay its debt or has its credit rating reduced. Generally, the higher the perceived credit risk of the issuer, the higher the rate of interest. Bond markets may be subject to reduced liquidity. The Fund may invest in emerging markets/soft currencies and in financial derivative instruments, both of which may have the effect of increasing volatility. The Fund may invest in derivatives. The use of derivatives may create leverage or gearing. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead.

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