



Global Fixed Income

Q2 2024 Review

Liontrust GF High Yield Bond Fund



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The Fund (C5 sterling accumulation class) returned 1.4%* in sterling terms in Q2 2024 while the ICE Bank of America Merrill Lynch Global High Yield Index (GBP hedged) comparator benchmark returned 1.4% and the average return for the IA Sterling High Yield reference sector was also 1.4%. The primary B5 US dollar share class returned 1.5%, while the ICE Bank of America Merrill Lynch Global High Yield Index (USD hedged) comparator benchmark returned 1.5% and the average return for the EAA Fund USD High Yield Bond (Morningstar) reference sector was 1.1%.

We also compare the Fund's performance to a leading Global High Yield ETF (seeking to outperform by 1.5% a year)[†]. The Fund's C5 sterling shares class return was ahead of the ETF in Q2 and has now outperformed by over five percentage points since inception (June 2018).

The global high yield market returned 1.49% (US dollar terms) in the second quarter of 2024. The US high yield market produced a return of 1.09% while in Europe the market returned 1.87% during the period. The returns across the different rating bands in US and Europe were broadly similar, although European CCCs produced an impressive return of 3.9%, while US CCCs were fairly anaemic at 0.18%.

Fund performance

With its index matching returns in the quarter, the main positive contributors in the Fund included Ceramtec, a ceramic products manufacturer, and Grifols, a blood plasma producer. Both are CCC rated, euro denominated bonds and therefore perhaps tapping into the broader theme of euro CCC outperformance.

Grifols was a topical bond in Q1 for its underperformance, but during Q2 it made progress in the refinancing of its capital structure, including asset sales. We sold out of the position towards the end of the quarter after the bond was downgraded to Caa2. The positive contribution of this bond was dimmed a little by this rating action, but the general view held by Moody's is the company now has a large amount of strategy execution risk in order to deliver its balance sheet. We agree with this assessment and felt selling the bond at a price in the low 80s

was prudent whilst we wait for more evidence that, operationally and financially, the company is on the right path. Another company, B-rated Saga Plc, contributed positively as it made progress in refinancing its bonds, when previously the market had shown a little scepticism – undue in our eyes – that its 2024 bond would be refinanced.

Less positively, an example of poor stock-picking in the quarter was in another CCC-rated euro-denominated bond, Kloeckner Pentaplast. This was a very small position size due to its relatively precarious position versus a 2026 maturity wall. We decided to exit this small position at a price close to 50 as, effectively, we lost conviction that par is the likely outcome for this bond. During the quarter (and indeed the year to date), the holding cost the fund only a few basis points, and the cost to the fund over the entire holding period was less than 10bps, due in large part to some good trading, sensible position sizing and, of course, carry.

No particular sector stands out as driving marked relative returns during the quarter. Real estate felt somewhat quiet, certainly relative to recent quarters, though still made the Fund a relative return of close to 20bps. Aroundtown, added to the Fund in January, and long-term holding CPI Property were the main contributors, although CPI's contribution would have been greater had it not been downgraded to sub-investment grade during the period. We took the opportunity to top up its senior unsecured bonds in the aftermath of this downgrade.

Trade activity

The Fund invested in a new holding during the quarter called Brightline East. This is an extremely unique company in the high yield market, where it has built 'higher speed' rail in Florida and is now going through the ramp-up phase whilst Floridian travellers increase their use of this new service. It has a coupon of 11%; we bought it below par and the bond structure comes with a couple of years of debt service reserves whilst ridership grows. This is a different proposition to what we have in the portfolio, is highly idiosyncratic and we believe paying well for what are clear risks.

Elsewhere we participated in a new issue by an auto parts company called Mahle. This German company is owned by a foundation, which extracts only very modest dividends for charitable use. We think it is managed with a long-term outlook and has a balance sheet to cope with the natural cyclical in the autos market.

Outlook

Sticky inflation continues to drive volatility in rates markets, whilst credit markets remain extremely resilient. Whilst unemployment remains low, credit conditions are fairly benign, so we do understand why High Yield has generally been stable. Yet the longer rates remain elevated, the risk of economic slowdown further down the line increases. In this context, we have been happy to gradually reduce risk in the portfolio. We believe we are prudently positioned for what we believe to be a somewhat precarious macro back-drop, though still harvesting the now attractive income being generated by the asset class.

The Fund continues to invest in bonds based on strong corporate fundamentals and has a bias towards high quality defensive credits, with minimal exposure to cyclical credits. We believe our defensive approach stands us in good shape to perform if and when default risk is the major driver of the market, rather than interest rates. The Fund is currently offering yield of around 9.1% for sterling investors (and around 7.5% for euro investors), which we view as an attractive entry point.

Discrete years' performance (%) to previous quarter-end:

	Jun-24	Jun-23	Jun-22	Jun-21	Jun-20
Liontrust GF High Yield Bond C5 Acc GBP	12.6%	10.2%	-16.6%	13.2%	-1.3%
ICE BofA Global High Yield Hedge GBP	10.9%	7.7%	-15.5%	13.7%	-1.6%
IA Sterling High Yield	10.7%	7.1%	-12.5%	13.5%	-2.3%
Quartile	1	1	4	3	2

	Jun-19
Liontrust GF High Yield Bond C5 Acc GBP	7.1%
ICE BofA Global High Yield Hedge GBP	6.5%
IA Sterling High Yield	5.2%
Quartile	1

*Source: Financial Express, C5 share class, total return, net of fees and interest reinvested. As at 30.06.24. 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.

¹While 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 ¹	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 (SRI) ²	5
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 PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID 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/benefits-of-investing/guide-financial-words-terms>

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

The creditworthiness of a bond issuer may also affect that bond's value. Low rated (high yield) or equivalent unrated debt securities of the type in which the Fund will invest generally offer a higher return than higher rated debt securities, but also are subject to greater risks that the issuer will default. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

The Fund can invest in derivatives. Derivatives are used to protect against currency, credit or interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

The Fund uses derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

The Fund invests in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of the fund over the short term.

The Fund may encounter liquidity constraints from time to time. Participation rates on advertised volumes could fall reflecting the less liquid nature of the current market conditions.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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