FOCUS ON EURO HIGH YIELD

ANALYSIS AND INSIGHT

February 2025

Document completed on 24/02/2025

Ofi invest Asset Management

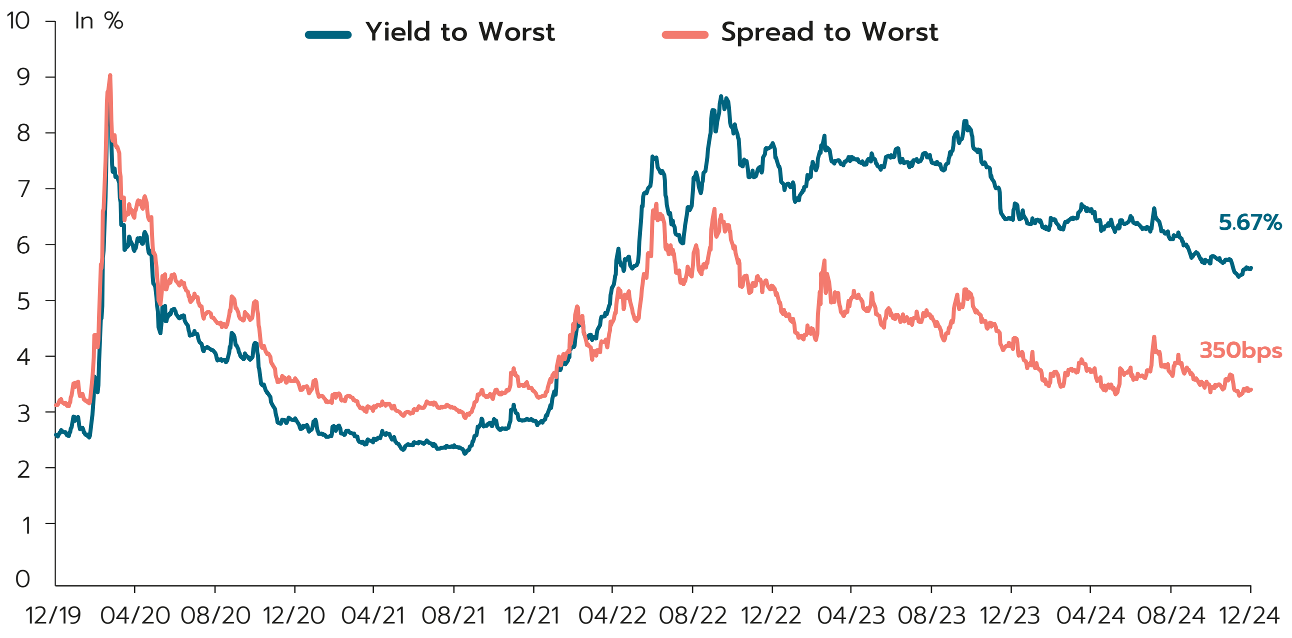
THE EURO HIGH YIELD CREDIT MARKET

Two consecutive years of good performances on the European high yield credit ex-financials market have erased its 2022 drop (-11.16%[1]), with performances of +12.10%[1] in 2023 and +8.48%[1] in 2024. The market ended the year with a yield to worst of 5.67%, including 350 basis points of risk premium. The risk premium fell by 79 basis points in 2024, and is now 69 basis points below its 10-year historical average. Even so, **the asset class's current level of carry offers adequate protection**. It protects the investor until as far as 170 basis points (risk-free rate and risk premium included as of 17 February 2025).

The euro high yield market isn't done yet

So, we remain constructive on the asset class owing to the carry on offer and based on our economic scenarios, which rule out the risk of a serious recession. To exploit this market's potential, it is still essential to carefully select portfolio bonds.

MERRILL LYNCH EURO NON-FINANCIAL FIXED & FLOATING RATE HIGH YIELD INDEX



Source: Bloomberg as of 31/12/2024

[1] Euro-denominated non-financial high yield bonds (Bloomberg HEAE index).
Past performances are not a reliable indicator of future performances.

The analyses presented in this document are based on the assumptions and expectations of Ofi Invest Asset Management, These analyses were made as of the time of this writing. It is possible that some or all of them may not be validated by actual market performances. No guarantee is offered that they will prove to be profitable. They are subject to change.

A glossary of the main financial terms is provided on the last page.

A STRUCTURED AND NORMALISED MARKET

The euro high yield bond market has experienced significant expansion and structuring since 2009, moving from 50 billion euros to 530 billion as of the end of 2021[(2)]. The steep drop in interest rates of 2022 and 2023 nonetheless disrupted refinancings and caused a slight contraction in the universe, which amounted to 375 billion as of the end of 2024[(2)].

The market continues to be supported by primary issuance and heavy inflows. Dominated by heavy industries until 2015, it then experienced a sector rotation beginning in 2016 towards services (telecommunications and banks) and a significant improvement in issuer credit quality.

THE EURO HIGH YIELD UNIVERSE
as of end 2024[(2)]

€375bn

EURO VS DOLLAR MARKET

The recent rise in interest rates has widened the duration gap between the euro and dollar (USD) markets. As of the end of 2024, the euro market's duration to worst was 2.8 years, or 0.5 year less than the dollar market. However, risk premiums are higher on the euro-denominated market than in dollars, owing to geopolitical uncertainties and higher energy prices in Europe.

Although more highly rated, **the euro-denominated market therefore offers higher remuneration than the market in dollars for the risk incurred**.
Meanwhile, during the fourth quarter of 2024, the US dollar gained more than 7% vs. the euro. This significantly reduces the potential yield of dollar-denominated assets for European investors.

[(2)] *Source: Bloomberg*
Past performances are not a reliable indicator of future performances.

THE OFI INVEST EURO HIGH YIELD STRATEGY

With almost 550 million euros in assets under management as of end-December 2024[3], **the strategy is balanced between conviction and diversification** on the euro high-yield ex-financials market. Its objective is to outperform its benchmark index (the Merrill Lynch Euro Non-Financial Fixed & Floating Rate High Yield Index) net of management fees, through active management structured around a top-down approach aiming to optimise portfolio allocation and a bottom-up approach to selecting issuers.

The strategic allocation is based on four levers, in order to manage credit risk and interest-rate risks actively: beta management (offensive or defensive positions), the sector allocation (over- or underweighting), allocation by rating (over- or underweighting) and adjustment of duration (lengthening or shortening of the portfolio's maturity).

Selection of issuers via financial and extra-financial research is based on three factors: valuation (attractive, fair priced or expensive), company fundamentals (solid, stable, or weak) and the issue's technical factors (good, average or bad).

The strategy has significant assets under management, allowing it to access the best market opportunities (optimised transaction costs, heavier weightings of primary allocations) and to encourage companies to adopt best practices. Meanwhile, the strategy remains nimble and able to make tactical arbitrages and invest with conviction.

As of the end of 2024, the strategy had invested in 149 issuers with an average rating of portfolio issues of BB. Its yield to maturity is 5.3% and its duration is 3.2 years.

PERFORMANCE AND POSITIONING AS OF END DECEMBER 2024

As of the end of December 2024, Ofi Invest Euro High Yield had returned 8.36% net of fees (for its IC units), vs. 8.46% by its benchmark. This slight underperformance is due to its underweighting of the riskiest, "distressed" market segments, particularly the real-estate sector in early 2024, in order to protect the portfolio against default risk.

Over the past three years, the portfolio has outperformed its benchmark by more than 2%, with a performance net of fees of 10.13, vs. 8.00% by the index.

This outperformance results from sector-based choices and judicious ratings, as well as active management of credit risk and interest-rate risk. In particular, in 2023, underweighting of the market's riskier segments contributed to performance, amidst strong fears of an uptick in defaults.

The strategy is ranked[4] 25th out of 85 for its one-year performance and 14th out of 72 for its three-year performance within the "Euro High Yield Bond" group by Europerformance.

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[3] Source: Ofi Invest AM
[4] References to a ranking are not a reliable indicator of future results of a fund or of the asset manager. Source: Ofi Invest AM as of 31/12/2024.
Past performances are not a reliable indicator of future performances.

EX-FINANCIALS MANAGEMENT

The euro corporate bond market consists of both financial bonds (issued by banks and insurance companies) and non-financial bonds.

Financial bonds address specific financing needs and incur distinctive risks requiring suitable research models. For this reason, the market classifies these bonds into two separate categories. **Ofi Invest Euro High Yield aims to exploit 100% of the potential returns on high yield non-financial corporate bonds denominated in euros and issued within OECD member-countries**. Accordingly, it invests in all sectors, with the exception of banks and insurance companies. Its benchmark is based on this same market segment and also excludes the financial sector.

At Ofi Invest Asset Management, we have chosen to focus our investments in financial bonds on our investment grade and total return[5] strategies, backed by the expertise of four analysts[6] specialising in the financial sector. The investment grade universe consists of almost 40% financial bonds and therefore offers us a natural source of opportunities to exploit the potential yield on financial bonds. The Ofi Invest Euro High Yield team can thus focus fully on managing a pure strategy dedicated to non-financial sectors.

[5] Not all asset managers view "total return" strategies in the same way. At Ofi Invest AM, such portfolios are known as flexible, non-benchmarked products.
[6] Teams are subject to change over time.

HIGH YIELD MANAGEMENT AT OFI INVEST AM

As of the end of 2024, Ofi Invest AM managed **more than 110 billion euros in bond assets,** of which 10 billion in open-ended funds. We launched our first high-yield mutual bond fund in 1999.

Our team[7] of four high-yield-dedicated analysts managed 2.4 billion euros as of the end of 2024. It is backed by 14 credit analysts, spread out across sectors and covering ratings from AAA to BB, as well as a special high yield analyst for ratings of BB- and below. We also have three economists, three fixed-income managers, three investment grade managers, 17 ESG experts and four quantitative and solutions analysts. **Backed by the synergies of our capabilities and the stability of our management team, we are able to navigate through critical market phases with complete peace of mind**. Our objective is to optimise management of the main risks[8] to our portfolios, whether due to defaults, interest rates or extra-financial factors.

[7] Teams are subject to change over time.
[8] For a full list of risks incurred by the strategy, please view the fund prospects at: https://www.ofi-invest-am.com/en/produits

THE IMPORTANCE OF EXTRA-FINANCIAL RESEARCH

In a context in which about 40% of issuers are not rated on environmental, social and governance (ESG) criteria by ratings agencies, it is essential to be able to call on advanced extra-financial research methods.

Our team is backed by an ESG research team of 17 experts[9]. The ESG research team processes and fleshes out agency research when such is available and contacts non-rated issuers directly. To fill this information gap on almost 40% of the universe, **we have developed an in-house rating process designed specifically for high yield**. We compile ESG information from issuers via questionnaires that are specific to each sector, in order to rate these same issuers. This approach allow us to improve ESG coverage and to take full advantage of high-yield investment opportunities.

When our research reveals a lack of transparency of unsatisfactory practices, we engage directly with companies to encourage them to adopt better practices. For example, in 2024, we engaged with Odido NL*, a Netherlands-based telecom group, to alert it to data protection and management of digital waste.

Such engagements allow us not just to assert our expectations as a responsible investor, but also to fine-tune our ESG research, while helping companies to improve their practices. **Through this proactive approach, we strengthen our commitment to responsible asset management and create sustainable value for our investors**.

AN SFDR[10] ARTICLE 8 FUND

As part of its responsible asset management package, Ofi Invest Euro High Yield integrates ESG factors at three levels.

First, by applying strict norms-based exclusions (controversial weapons and failure to comply with the UN Global Company) and sector-based ones (companies generating revenues[11] from the use of thermal coal, oil & gas, tobacco, palm oil, biocides and chemicals) applied to all open-ended funds managed by Ofi Invest Asset Management[12].

Second, by systematically taking ESG research and controversies into account in selecting issuers. The portfolio's ESG score must at all times be better than that of its benchmark SRI universe. At the very least, 75% of portfolio issuers must have an ESG rating.

Third, when we identify a lack of transparency or unsatisfactory practices, we strive to engage directly with the companies concerned to encourage them to adopt better practices.

** These companies are cited for information purposes only. This is neither an offer to sell nor a solicitation to buy securities.*
(9) Teams are subject to change over time.
(10) 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.
(11) Depending on exclusions, revenue limits range from the first euro up to 10% of revenues.
(12) Exclusion policies do not apply uniformly to all sectors. For details on the criteria and thresholds specific to each norms' based and sector exclusion policy, please to go the policies and documents website: www.ofi-invest-am.com.

ISR [SRI] CERTIFICATION AND THE HIGH YIELD UNIVERSE

Based on the **third version of the official French ISR [SRI][13] label methodology,** the strategy must pledge to report on at least one PAI (principle adverse impact) indicator. However, to date, the European high yield market does not provide enough data on these indicators. Out of the 27 PAI indicators, the one that is most reported barely achieves 50% coverage.

The euro zone high yield strategy would have to screen out at least 45%[14] of its investment universe to be eligible for ISR certification. We concluded that, because of this asset class's lack of transparency and maturity regarding adverse impacts, we had to **renounce ISR certification for Ofi Invest Euro High Yield to remain faithful to our management philosophy**.

[13] To find out more about the ISR certification, please go to: https://www.lelabelisr.fr/. Any references to a ranking, a prize or a label are not to be construed as an indication of the fund's or the manager's future results.
[14] In the case of the Ofi Invest AM strategy. Source: in-house study by Ofi Invest AM's ESG risk team, November 2024.

Glossary

Basis point: 1 basis point = 0.01%

Beta: measures the portfolio's sensitivity and risk compared to its benchmark index. A portfolio shall be deemed offensive if its beta is higher than 1, or defensive if it is lower than 1 (details on how this is calculated are provided below). Hence, if a portfolio's beta is greater than 1, it can be expected to outperform its benchmark when the market is moving up, or when the market is moving down if its beta is lower than 1. Conversely, a portfolio can be expected to underperform its benchmark index when the market is moving up if its beta is lower than 1, or when the market is moving down if its beta is higher than 1. Beta Crédit = (portfolio's credit sensitivity x portfolio's average credit spread)/(Benchmark's credit sensitivity x benchmark's average credit spread).

Bottom up approach: a research and decision-making method that begins by examining specific details before considering the overall picture.

Carry: consists in keeping fixed-income securities in a portfolio to exploit their returns, possibly until they mature.

Distressed issuer: a company or entity that encounters financial difficulties so great that it is close to bankruptcy or already in default of debt payments. Financial securities from these issuers, such as bonds or equities are called "distressed securities" and are often sold at very low prices, due to the high risk they incur.

Duration: a measure of the sensitivity of the price of a bond to changes in interest rates. It expresses the weighted average duration of a bond's future cash flows, in years. The longer its duration, the more a bond's price is sensitive to changes in interest rates.

Financial bonds: bonds issued by banks and financial companies.

High yield bonds: rated by Standards & Poor's and Fitch from D to BB+, and by Moody's from C to Ba1. High yield bonds are regarded as riskier, and in exchange for that risk offer higher yields.

Interest rate risk: possibility that interest-rate shifts will have a negative impact on the value of an investment, bonds in particular. Credit risk is the possibility that a borrower will be unable to repay its debts, which can lead to losses for investors.

Issuer default: when a borrower is unable to honour its payment obligations on a debt, such as repayment of interest or principal on a bond.

Principal adverse impacts (PAI): refer to the negative impacts of investment decisions on sustainability factors. These impacts are assessed and disclosed in accordance with SFDR to ensure investor transparency and responsibility.

Recession: period of significant and generalised economic decline, which generally lasts for several months. It manifests itself in a decline of gross domestic product (GDP).

Risk-free rate: the rate expected on an investment regarded as having no risk of default. In general, the risk-free rate is the yield on short-term government bonds, such as US Treasuries, as they are backed by the full faith and credit of the government. This rate often serves as a benchmark for assessing the performance of other investments.

Risk premium: the additional yield that an investor demands for investing in a risky asset compared to a risk-free asset. It expresses the compensation for the additional risk assumed.

Top-down approach: a research and decision-making method that begins by examining the overall picture before focusing on specific details. In finance, this first means researching general economic conditions, followed by economic sectors, and then individual companies.

Yield to Maturity (YTM): the total yield that an investor can expect if he/she holds a bond until maturity. This includes all future interest payments, as well as the capital gain or loss compared to a bond's purchase price.

Yield to Worst: the lowest yield that an investor can obtain on a bond, assuming that the issuer does not default.

Important notice

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