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Quarterly insurance update

Q2 2024

ROYAL LONDON
ASSET MANAGEMENT

Summary

Welcome to the Quarter 2 2024 investment update designed for insurers and produced by Royal London Asset Management. A key theme to emerge during the quarter was the recalibration of the pace, and magnitude, of central bank rate cuts over the rest of 2024, in light of the more favourable global macro backdrop. At the end of last year, markets were pricing in an aggressive rate cutting cycle by as much as 1%, but central banks signalling higher for longer interest rates due to persistently higher than target inflation swiftly moved to temper those forecasts over the quarter.

In addition, reviews of the regulatory frameworks within both Europe and the UK have continued to progress. In the UK, the Prudential Regulation Authority (PRA) published its feedback to the review of 'Solvency II: Adapting to the UK Insurance Market'. It also published its expectation for regulated entities to plan for, and be able to execute, a 'solvent exit' as well as looking elsewhere at liquidity reporting requirements. In Europe, the European Insurance and Occupational Pensions Authority (EIPOA) published a study on diversification modelling in the internal models used by insurers. EIOPA also launched its 2024 stress test, focusing on the economic impact of a re-escalation or prolonged period of heightened geopolitical tension, like that seen following the onset of the Ukraine-Russian war.

Within this quarterly update, we cover developments in the two main areas most prevalent to the asset side of insurers' balance sheets - investment markets and regulations. In addition, we highlight investment themes we believe are pertinent to many insurers at the present time.

Market update:

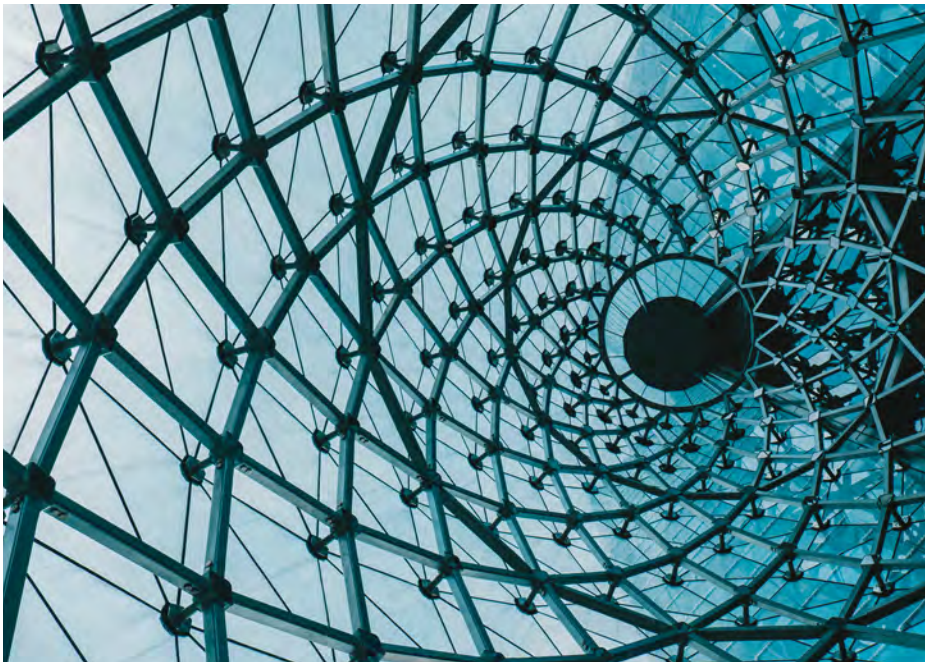
- Government yields rose in all the major markets. The bulk of this move occurred in the first two weeks of January, before largely trading in a range between 4% and 4.2% for the rest of the quarter. The rising yield environment helped short-dated bonds to outperform their longer-dated equivalents.
- In contrast to the losses in the government bond market, the sterling investment grade credit market returned 0.06% over the quarter, with the effect of higher yields mitigated by tighter credit spreads and the higher carry in this area.
- Some of the same trends that were driving markets during the fourth quarter continued into the first quarter of 2024 for global equities. The tech sector continued to benefit from the excitement around Artificial Intelligence (AI) and industrials continued to experience a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The energy sector benefitted from higher oil prices though the quarter.

Regulatory update:

The regulatory environment for insurers continued to develop. Over the quarter:

Europe

- EIOPA published a study on diversification modelling in the internal models used by insurers. This study follows the publication of a comparative study on non-life underwriting risk in internal models conducted earlier in January.
- EIOPA also launched its 2024 stress test for European insurers. The stress test will focus on the economic impact of a re-escalation or prolonged period of heightened geopolitical tension. It will assess the impact of such a scenario on the capital and liquidity position of European insurers and the findings will allow EIOPA to make recommendations to the industry and enable supervisors to discuss with insurers remedial actions as necessary, in order to improve their resilience going forward.



UK

- PRA published PS2/24 which provided the PRA's feedback to responses received concerning material sections to CP12/23 'Review of Solvency II: Adapting to the UK insurance market'. The feedback received on these policy areas and the feedback/actions taken by the PRA will be outlined further in this publication.
- The PRA also published CP2/24 'Solvent exit planning for insurers'. This outlined the PRAs expectation for regulated entities to plan for, and be able to execute, a 'solvent exit', whereby firms can exit the market with minimal disruption, in an orderly way, and without having to rely on the backstop of an insolvency or resolution process.

We explore these areas in more detail, also highlighting what these could mean for insurers going forward.

Insurance investment themes:

We set out an investment theme for insurers that we believe is well placed, and relevant, relative to the future economic and regulatory environment. For this quarter's publication we include:

- **Short Duration Global High Yield:** We believe that shorter duration high yield bonds can be an attractive proposition for many insurers due to their economic characteristics as well as favourable current valuations. This provides a potentially efficient way to access the returns available in a core and growing part of the fixed income universe.

Market update

	Yield (%)*		Total 3 month return*
	31 December 2023	31 March 2024	
Euro Treasuries†	2.67	2.94	-0.33% (GBP) -0.65% (EUR)
UK Gilts†	3.89	4.20	-1.62% (GBP)
US Treasuries†	4.08	4.43	-1.03% (GBP) -1.33% (EUR)

	Spread (bps)*		Total 3 month return*
	31 December 2023	31 March 2024	
Global IG Corporates†	115	100	0.03% (GBP) -0.28% (EUR)
Euro IG Corporates†	131	109	0.34% (EUR)
UK IG Corporates†	121	107	0.06% (GBP)
Emerging Market Debt†	383	341	2.27% (GBP) 2.27% (EUR)
Global High Yield†	318	272	1.76% (GBP) 1.44% (EUR)

	Price index*		Total 3 month return*
	31 December 2023	31 March 2024	
Global Equities†	18610.88	20448.91	9.88% (GBP) 11.37% (EUR)
Euro Equities†	4521.44	5083.42	12.43% (EUR)
UK Equities†	4232.01	4338.05	3.57% (GBP)
Emerging Market Equities†	625.53	646.2	3.30% (GBP) 4.71% (EUR)

	Index*	
	31 December 2023	31 March 2024
Volatility†	12.45	13.01

*Source: Bloomberg, IHS Markit.

†See appendix for details on index used and returns quoted.

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Overview

A key theme to develop during the quarter was the emergence of a more favourable global macro backdrop. Despite some mixed signals, the US economy remains resilient, while Europe and the UK show signs of gradually exiting their (technical) recessions. Activity in China also seems to be stabilising. At the same time, core central banks are still confident that the disinflation trend remains intact, despite some recent setbacks in inflation prints. Policymakers have often highlighted that they are in no rush to cut rates – with markets now generally pricing the start of the easing cycles to begin this summer. The Federal Reserve, European Central Bank and Bank of England all left interest rates unchanged over the quarter.

One major development over the quarter is that markets have recalibrated their pricing for expected central bank cuts over this year. At the end of last year, markets were pricing in an aggressive rate cutting cycle, but then swiftly moved to temper those forecasts. This re-pricing contributed to negative returns for global government bond markets over the quarter. Despite the belief of many that it was the anticipation of a 'Fed-pivot' that contributed to the rally in equity markets in late 2023, equity markets proved to be immune to this bond market sell-off as global growth and business confidence showed signs of resilience and investors focused on the potential offered by AI.

Data released in the first quarter confirmed that the UK experienced a technical recession in the second half of 2023 but painted a picture of stronger economic activity, with falling inflation and more signs of softening underlying domestic inflationary pressure. Fourth quarter GDP fell 0.3% quarter-on-quarter in real terms after falling 0.1% in the third quarter. Meanwhile, CPI inflation fell a bit further to 3.4% year-on-year in February from 3.9% for the

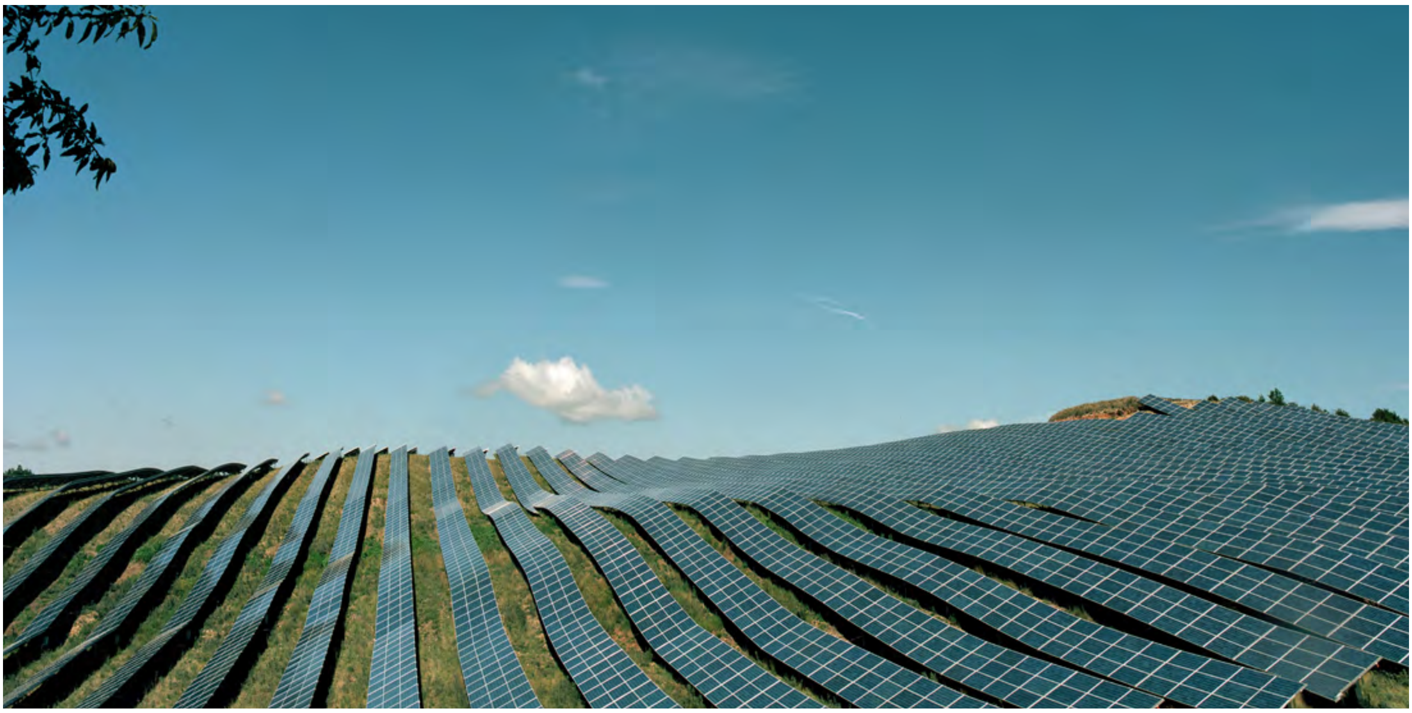
November release. Core inflation fell to 4.5% year-on-year from 5.1% over the same period. By the end of the quarter (the January data release) regular pay growth figures were showing more signs of slowing, at 6.1% (3M/Y) for the 3-months to January (from 7.2% three-months earlier). Consistent with falling – but still above target – inflation, but with activity and labour market data relatively resilient, the Bank of England continued to keep rates on hold at 5.25%. The Budget saw the Chancellor present further tax cuts, adding net stimulus near term but with the projections for future years still implying sizeable real terms spending cuts for unprotected government departments.

The US Federal Reserve continued to keep rates on hold at 5.25-5.50% over the quarter against a still resilient labour market backdrop, and after a couple of stronger than expected inflation prints. As of their March meeting, the median forecast of participants still had 75bps of rate cuts in for 2024, but with the number of cuts pencilled in for 2025 being reduced from four cuts to three. Over the quarter, CPI inflation was broadly stable, at 3.2% year-on-year in February, from 3.1% in November (briefly 3.4% in December). However, core CPI inflation rose more strongly than expected at 0.4% month-on-month in both January and February. The core PCE measure of inflation fell over the quarter in year-on-year terms but came in above 0.2% month-on-month in both January and February. Fourth quarter GDP recorded a strong 3.4% quarter-on-quarter annualised growth, weaker than in the third quarter but still well above trend. More timely economic activity indicators were broadly consistent with reasonable growth in the first quarter. Real personal spending grew. Non-farm payroll gains were above 200K in January and February, but the unemployment rate jumped two-tenths in February.

Over the first quarter, the European Central Bank kept rates on hold. As of the March meeting, the staff inflation forecasts were more consistent with sustainably hitting the target and President Christine Lagarde continued to emphasise that they wanted more data and evidence before cutting rates. She said that they would know a "little more in April, but we will know a lot more in June." Various ECB speakers have signalled that they think a rate cut is possible in June. Euro area CPI rose in December but fell back to 2.6% by February. Core CPI fell gradually over the same period too to 3.1% year-on-year. The euro area economy (GDP) was flat in Q4 at 0.0% quarter-on-quarter. Business surveys, however, were consistent with the economy remaining in (mild) recessionary territory, even if the composite PMI improved over the quarter.

Government bonds

Government yields rose in all the major markets. In the US, 10-year treasury yields rose from 3.88% to 4.21%, while German 10-year bunds similarly saw yields rise from 2.01% to 2.30%. Mirroring this backdrop of rising yields, UK government bonds produced a return of -1.62% (FTSE Actuaries) over the first quarter, with the benchmark 10-year gilt yield rising from 3.54% to 3.94%. The bulk of this move occurred in the first three weeks of January, as the market unwound a large portion of December's strong rally. Since the middle of January, the market has broadly moved sideways, in what has been a relatively tight trading range; 10-year gilt yields, have, for much of the quarter, traded between 3.9% and 4.1%. The sell-off in early January was led by the front end of the curve, with five-year yields rising most, as markets reappraised both the timing of the first cut, and the number of cuts it expected from the BoE in 2024. By the end of the quarter the first cut was priced



for June with three cuts in total for 2024, against forecasts of March and six cuts respectively at the start of the year. Central to this was the surprising resilience of both the UK and global economic data versus expectations.

Credit

Global corporate bonds saw mixed effects during the quarter. In the US, euro zone and UK, the negative impact of rising underlying government bonds was offset by credit spread tightening and positive carry, to leave returns roughly flat (in local currency terms); the sterling investment grade credit market (iBoxx non-gilt index) returned 0.06% over the quarter.

Lower down the rating scale, global high yield markets saw modest gains, while areas such as corporate hybrids and contingent capital bonds (cocos) all produced positive returns over the period.

The shorter duration of the credit market index also helped offset some of the government market headwind. The average sterling investment grade credit spread (the average extra yield available from non-gilt bonds compared with government debt of equal maturity) tightened from 1.15% to 1.02% (iBoxx).

Sterling issuance rebounded strongly in March, climbing to £6.2bn from February's lowly £2.7bn, but was still off the £8.3bn seen in January. Following March's figure, the issuance for the first quarter totalled £17.3bn, which is down from the £25.1bn issued in the same period a year prior, and more than half - £10.0bn – coming from financials. Euro issuance in March was broadly similar to February's level at €68.5bn versus €67.9bn the month prior, but considerably lower than January's €93.8bn issuance.

In the high yield market, the ICE BofAML (BB-B) Global Non-Financial High Yield Index (sterling hedged) benchmark returned 1.77% in the quarter as spreads hit 290bps. At the end of the period, the index's yield-to-worst stood at 6.95%, having fallen from 7.05% at the start of the year. In the broader-based high yield index, which includes CCC rated bonds, spreads tightened to 358bps, with a yield-to-worst of 7.65%. Over the course of 2023, global high yield new issuance has totalled $285bn up from $170bn in 2022.

Equities

Some of the same trends that were driving markets during the fourth quarter continued into the first quarter of 2024. The tech sector continued to benefit from the excitement around AI and industrials continued to experience a tailwind from a resilient macro backdrop combined with government stimulus towards infrastructure spending. The energy sector benefitted from higher oil prices through the quarter, the price of WTI crude oil gained 17.5% over the quarter to $83.71 a barrel, reversing the losses of the prior quarter amid attacks on Russian refineries and OPEC signalling production cuts.

For the first quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) produced positive returns in US dollar terms. Looking at national MSCI indices, the strongest market was Ireland, while the weakest was Portugal. In terms of style, the MSCI World Growth Index produced stronger returns versus the MSCI World Value Index.

Performance by sector was more balanced, as although the tech heavy communication services and IT sectors were the strongest performers, they were closely followed by financials, energy and industrials. It was the laggards who stood out more, with defensive sectors consumer staples, utilities and real estate particularly weak at a relative level.

In the first quarter, the UK equity market saw a strong performance, rising 3.6% (FTSE All-Share index). Expectations remain that as inflation continues to moderate, interest rate cuts are around the corner. The corporate reporting season was generally supportive, particularly in the financials sector where banks reported robust results, with industrials also seeing a strong quarter. Investor enthusiasm was further fuelled by several M&A deals being announced.

Regulatory updates

1. EIOPA study on diversification between risks in internal models underlines the importance of continued supervisory attention

On 24th January 2024, EIOPA published a study on diversification modelling in the internal models used by insurers. Diversification modelling consists in offsetting the adverse outcome from one set of risks by a more positive outcome from a different set of risks. This offsetting typically has a material impact on the overall level of capital required for the insurer when risk capital requirements are aggregated.

This study follows the publication of a comparative study on non-life underwriting risk in internal models conducted earlier in January (as reported in our Q1 2024 insurance update).

The study provides an overview of the current modelling approaches and equips regulators with elements of a European sector-wide comparison as well as various diversification indicators that are intended to support, and complement, the work of national supervisors when monitoring the on-going compliance of internal models.

EIOPA's analysis highlights that diversification in internal models is determined by at least four main factors:

1. the clear definition of the risks that are to be aggregated,
2. the risk profile,
3. the aggregation approach and;
4. the way that dependencies between risks are determined to set up the aggregation approach.

EIOPA observed multiple approaches, in particular the aggregation methods and the way dependencies between risks are determined. The study used a variety of metrics and analyses, each with their own strengths and weaknesses, to obtain a holistic view on diversification within internal models. In particular, it highlights that different models of aggregation of risks lead to a sizeable dispersion in the capital requirements even for insurers with similar business profiles.

What does it mean for insurers?

Both studies are part of EIOPA's wider effort to efficiently compare outputs from internal models, further develop supervisory tools and foster common supervisory practices across Europe. The overall findings confirm the need for continuous supervisory scrutiny both at the local and European levels. EIOPA will continue working with National Competent Authorities on this important topic.

2. EIOPA stress tests European insurers' resilience with a scenario of escalating geopolitical tensions

On 2nd April 2024 EIOPA launched its 2024 stress test for European insurers. The stress test will focus on the economic impact of a re-escalation or prolonged period of heightened geopolitical tension and revisit some of the bottleneck issues driving inflation at the onset of the Ukraine-Russia conflict. It will assess the impact of such a scenario on the capital and liquidity position of European insurers.

The sample for the stress test will include 48 insurers from 20 European countries which cover over 75% of the EEA market in terms of total assets.

The 2024 scenario will model a widespread resurgence of supply chain disruptions, leading to lower growth and higher inflation. Follow on effects from this would result in a wage-price spiral which would further exacerbate inflationary pressures which would, ultimately, lead to a re-appraisal of market expectations of interest rates across maturities and currencies.

The resulting tightening of financial conditions would lead to an increase in government bond rates and would, in turn, weigh on corporate profitability, widen credit spreads and have a negative impact across other asset classes.

The market and insurance specific shocks derived from the scenario are calibrated to be severe, but reasonable, and affect both the asset and liability side of the balance sheet of insurers as well as their liquidity in- and out-flows.

What does this mean for insurers?

The findings will allow EIOPA to make recommendations to the industry and enable supervisors to discuss with insurers remedial actions as necessary in order to improve their resilience going forward.

Insurers that will be subject to the stress tests have until mid-August 2024 to calculate their results based on the prescribed scenario and submit them to the relevant national supervisor. Once the results are submitted, EIOPA will undertake a quality assurance process to validate the results, which is expected to last until end of October 2024.

The results of the 2024 Stress Test will be published in December in two forms:

- Report based on aggregated data;
- Publication of individual results relating to a subset of capital-based indicators (subject to the consent of the relevant entity).

1. Feedback for Review of Solvency II: Adapting to the UK insurance market

On the 28th February the PRA published Policy Statement PS2/24, which outlined responses and actions based on the feedback received from Consultation Paper CP12/23 'Review of Solvency II: Adapting to the UK insurance market'. The general feedback from market participants and the subsequent responses, and actions, from the PRA are outlined below:

- **Simplifications to Transitional Measure on Technical Provisions (TMTP) calculations** - To reduce costs and complexity for firms – responses to the proposals were generally supportive with primary feedback surrounding the acceleration of the removal of the Financial Resource Requirement (FRR) test. The PRA reiterated that it will remove the FRR test from the TMTP framework in its entirety at year end 2024 and, in the meantime, for firms whose TMTP is limited due to the test, the PRA would consider removing the test following a case-by-case assessment.
- **Internal Models (IM)** – Designing a streamlined set of rules for internal models to, while maintaining robust standards, reduce the number of prescriptive requirements firms have to meet under the current framework. Unsurprisingly respondents were generally supportive of the proposals overall. The most material change outlined in PS2/24 stems from the new rule which will allow firms to make administrative changes to policies for changing an IM which do not require prior variation of permission by the PRA.
- **Greater flexibility in calculating group SCR** – Respondents were supportive but submitted several observations and requests for clarification. Changes, consequent to this feedback, were less material to changes made in other sections. Generally, the PRA considers allowing a group up to six months after an acquisition to create a plan to integrate any internal models would create additional flexibility, by better recognising the differences in nature between firms and ensure they had sufficient time to assess the most appropriate approach to model integration.
- **Requirements for third-country branches** – To facilitate domestic as well as international entry/expansion and competition of the UK insurance sector. This relates to the proposed policy to remove the rules that require international insurers operating in the UK, through a branch presence, to calculate branch capital requirements, as well as other consequential amendments.
- **Increase in solvency thresholds for small insurers** – Reducing the number of smaller insurers that are required to enter the Solvency II regime and facilitate the proportionality regime –the PRA increased the threshold relating to gross written premium income to £25 million, an increase of £10 million compared with the prior proposals. It also increased the technical provisions thresholds to £50 million, in line with the prior proposals.

What does it mean for insurers?

In essence, there is limited impact from the publication of PS2/24, other than the additional flexibility afforded in comparison to the existing regime. The changes outlined in this PS are less meaningful than the likes we have seen within other areas, such as Matching Adjustment and the Risk Margin. Within the cost-benefit analysis conducted by the PRA for each of the outlined areas above, the sentiment is consistently that the outcome of additional changes have little material impact on insurers.

What is of greater significance to insurers is the comparison to the existing regulatory regime, where these amended policy changes in aggregate can be understood as providing greater flexibility and less regulatory burden. As ever, with any regulatory change, there will be a financial cost associated with the change in operational requirements. However, as far as the PRA is concerned, this additional operational cost is compensated by greater flexibility and less overall regulatory burden.

2. Solvent exit planning for insurers

On the 23rd January the PRA published Consultation Paper CP2/24 'Solvent exit planning for insurers'. This outlined the PRAs expectation for regulated entities to plan for, and be able to execute, a 'solvent exit'. Firms are expected to have the ability to exit the market with minimal disruption, in an orderly way, and without having to rely on the backstop of an insolvency or resolution process. The PRA considers that a 'solvent exit' is likely to be more efficient, more cost effective and less disruptive to policyholders compared to insolvency.

From the PRA's experience the potential barriers to a solvent exit are only identified once the solvent exit execution is underway. As such, by requiring regulated entities to analyse and record a detailed plan of execution in advance of any potential need to exit the market, the PRA intends to minimise the need for their own intervention. Such a regulatory change will be proportional as the greater reassurance the PRA has that a regulated entity can successfully execute a solvent exit, the less involved they would be resultant to an insolvent exit.

The consultation paper goes on to differentiate the impacts and requirements on different types of insurers, however this can be broadly understood as applying to any firms where there is a risk of a disorderly exit.

What does it mean for insurers?

This increases the operational burden on insurers as it will require additional work to comply with any new requirements. Nonetheless, such an exercise provides an opportunity for insurers to identify areas of the business that may need improvement or adjustment for continued viability, transferability, or saleability. The PRA also notes the structural benefits to such detailed planning, including the increased protection to policy holders and the reduced impact to the broader economy of disorderly exits due to insolvency.

With the consultation having ended on 26th April, the PRA intends for any proposed changes to be implemented by Q4 2025.

3. Review of Solvency II: Reporting phase 3 – liquidity reporting

Market stress events in recent years (e.g. Ukraine-Russia conflict) have created significant liquidity strains for insurers. During these events, the PRA sought to receive live accurate data on the liquidity positioning of firms. Reflecting on this experience, and given the prevailing macro-economic conditions, the PRA is looking to develop additional liquidity reporting requirements, so that they can have a better understanding of a firm's resilience to market events as they evolve.

On the 19th March, the PRA held a roundtable with relevant stakeholders covering:

- the PRA's views on sources of liquidity risk within insurers
- the existing liquidity risk management framework, as set out in SS5/19
- the PRA's planned engagement during 2024 to develop liquidity reporting requirements

The PRA will initially be focusing on entities with the largest derivatives exposure and until September 2024, they intend to have regular subject expert group meetings to explore the topic further.

What does it mean for insurers?

Any increase to the reporting requirements is likely to be accompanied by an increased operational burden. Whilst this will likely not come to fruition for some time as the PRA looks to garner feedback from insurers first, given the frequency of recent liquidity driven market stress events, the concern is unlikely to faulter any time soon.

Insurance investment themes

1. Short Duration High Yield – Risk and SCR-efficient yield enhancement

After 30 years of falling yields, we have entered a period of market uncertainty caused by higher inflation and interest rates. As a result, investors and insurers in particular are looking to manage risk and find the right balance between the two key sources of return – capital and income. To provide stability and dampen the effects of short-term volatility on long-term returns, insurers are increasingly looking beyond traditional focus areas such as investment grade credit to generate attractive returns. In a volatile environment with risks on the rise, finding a solution with the potential to withstand a broad range of economic and market scenarios becomes of utmost importance. By selecting high-quality seasoned assets, which are defensively positioned at the front end of the yield curve, we believe that investors can enhance returns in a risk-controlled way.

A short duration global high yield strategy can fulfil this role in a diversified portfolio. We believe that this is a relatively low risk and efficient way to access some of the returns available in a core, and growing part, of the fixed income universe.

A short duration global high yield strategy is predicated on our belief that short maturity bonds – specifically those with two or less years to redemption – offers inefficiency opportunities, where investors can potentially earn a disproportionate return (income) for the risk and volatility profile of this part of the market.

Why should insurers consider this strategy?

It is natural that many investors, including insurers, perceive high yield markets as too risky, particularly those that have more conservative return targets, limited risk, or capital budgets.

However, while the broad high yield market is obviously higher risk than investment grade credit for example, the very short end of this asset class is somewhat different.

The first feature of note is the low duration. By focusing on bonds with less than two years to maturity, an overall portfolio duration is often around one year – thus reducing interest rate risk significantly compared to other fixed income strategies and with lower return volatility than other high yield approaches. The focus on shorter-dated bonds also means greater liquidity. The second is around the structural improvement in credit quality: historically, if a high yield bond is to default, it is much more likely to default in its early years (figure 1). Hence investing in bonds that were issued as longer-term high yield bonds that are now closer to maturity can mitigate default risk.

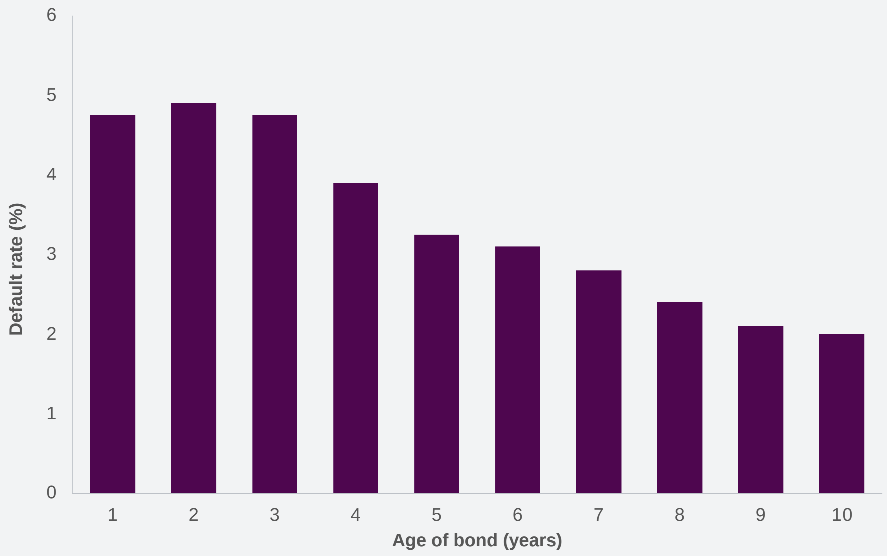
In addition to mitigating default risk, although short duration may mean investors are exposed to sub investment grade bonds (bonds rated below BBB) the focus on the shorter maturities should mean a lower capital impact than other high-yield strategies.

Efficient implementation is key

Our short-dated high yield strategies are globally focused. Historically, a number of funds in this area have been global 'by accident', taking a bias towards one market such as the US or Europe and adding exposure elsewhere as a bolt-on. Our strategy has been global by design since inception – with a region-agnostic approach giving us flexibility to build diversified portfolios from the widest opportunity set.

Figure 1: Distribution of defaults over 10 years

Defaults tend to peak early in the life of a bond



Source: Moody's Annual Default Study: Corporate Default and Recovery Rates, 1970-2015. As at July 2020.

Past performance is not a reliable indicator of future results.

We also manage the strategy without reference to a benchmark to avoid having a 'neutral' allocation to any one market. Our screening process focusses research capabilities on a more select group as well as callable bonds and bonds closer to maturity.

We combine this with the integration of ESG* into our decision-making process, using two core principles. Firstly, we prefer to engage rather than avoid and never apply automatic exclusions with no consideration of the financial trade-off. Secondly, we look at a financial impact assessment. ESG analysis provides us with an additional perspective on our traditional credit analysis. We recognise that governance issues may pose the greatest near-term financial risk to companies in high yield markets, while environmental and social issues may have longer-term regulatory impacts.

These steps help us build high conviction portfolios that we believe can deliver attractive returns but with much lower volatility than often witnessed in the global high yield market. The strategy has to date delivered a strong track record of consistent positive returns, through a range of market conditions, and we believe is well placed to continue this into the future.

*ESG integration refers to the consideration of ESG risk as part of the investment process. It does not mean the strategy is trying to achieve a particular positive ESG outcome.

Investment risks

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Appendix

Fixed income	Index used	Returns quoted
Euro Treasuries	Bloomberg Barclays Euro Treasury Index	EUR Hedged
US Treasuries	Bloomberg Barclays US Treasury Index	EUR Hedged
Euro IG Corporates	ICE BofA Euro Corporate & Pfandbrief Index	EUR Unhedged
Global IG Corporates	Bloomberg Barclays Global Aggregate Corporate Index	EUR Hedged
EMD	JPM GBI-EM Global Diversified Index	EUR Hedged
Global High Yield	ICE BofA BB-B Global Non-Financial High Yield Constrained Index	EUR Hedged

Equities	Index used	Returns quoted
Euro Equities	Euro Stoxx 50 Index	EUR unhedged
Global Equities	MSCI World Net Total Return GBP Index	EUR unhedged
EM Equities	MSCI Emerging Markets Net Total Return GBP Index	EUR unhedged

Volatility	Index used
Volatility	Cboe Volatility Index (VIX)

Source: Bloomberg, HIS Markit

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