

The Challenge Of Delivering Returns In A Low Yield Environment



Guillaume Rigeade – Fund Manager

In today's durably low interest rate environment, generating attractive returns from the bond markets remains a key challenge for investors. A number of fixed income sectors do offer opportunities, but bond picking is still fundamental.

In which segments are you focusing on for "edmond de rothschild bond allocation" fund?

The Edmond de Rothschild Bond Allocation fund is managed on the basis of a diversified fixed income allocation designed to capture these different opportunities.

Unlike its US or UK counterparts, the European Central Bank should maintain the loose monetary conditions for some while - a factor which supports

"The fund's key advantage is its flexible approach which enables us to express our convictions fully across the different market segments"

our decision to focus on bond markets within the Eurozone. The portfolio focuses on European sovereign bonds, primarily from peripheral countries. The fundamentals of these Eurozone countries have improved considerably and they continue to enjoy strong support from the Central Bank.

High Yield corporate bonds also rank top in our list of preferred bond sectors. Eurozone companies are benefiting from an improving economic out-

look and offer relatively low default rates. Financial bonds also have an important role to play within the portfolio. This asset class is buoyed by a changing regulatory environment - a positive development as it leads to larger and higher quality capital within these institutions.

Finally, we believe it is fundamental to diversify our fixed income allocation across other themes such as European convertible bonds – a choice consistent with our rather positive view on Eurozone equity markets – and emerging debt, which exhibits an attractive carry yield. Beyond these allocation choices, the key to successful bond investing today lies in the fund manager's ability to adapt to market conditions through a responsive and flexible approach. For example, it has now become essential to manage the portfolio's modified duration to take into account the scenario of rising interest rates and to protect the portfolio accordingly.

How can the edmond de rothschild bond allocation fund efficiently capture these opportunities?

Bond markets can be difficult for investors to grasp as they require highly specific skills. Actively managed across all fixed income markets, the Edmond de Rothschild Bond Allocation Fund offers an efficient solution to investors wishing to entrust their bond allocation and stock picking to proven specialists on these markets. The fund is therefore built from the convictions of Edmond de Rothschild Group's entire team of bond investment experts. The fund's key advantage is its flexible approach which enables us to express our convictions fully thanks to wide allocation brackets across the different market segments.

The fund's flexibility is also reflected in the way we manage the portfolio's modified duration. We adjust the modified duration within a range of -2 to +8, which enables us to capture market upside in positive environments and to protect the portfolio if conditions become challenging, particularly in the event of rising interest rates. The modified duration of Edmond de Rothschild Bond Allocation is currently close to 2. We remain long duration on the euro yield curve. On some segments, such as the intermediate part of the US yield curve, the fund's sensitivity is actually negative in order to factor in the expected interest rate hike in the United States

What performance has the edmond de rothschild bond allocation fund delivered recently?

Since the fund has been managed by our new investment team at the end of 2012, it has delivered cumulated returns of 10,0%¹. Our allocation choices and the quality of stock picking on segments such as subordinated financials, High yield, or peripheral sovereign bonds have contributed strongly to these results. The fund has delivered 4.9% returns year-to-date¹; assets under management are now in excess of €350m following €200m in new inflows this year – a sign of growing investor interest for the strategy.

Company Profile:

Asset management is one of the Edmond de Rothschild Group's two strategic businesses. The Group was founded in 1953 and has been chaired since 1997 by Baron Benjamin de Rothschild. An independent, family-owned group that also specialises in private banking, the group has €135.7bn under management and employs 2,900 people in 30 offices throughout the world.

With six investment hubs in the world (France, Switzerland, Germany, Hong Kong, Luxembourg and the UK), Edmond de Rothschild Asset Management is positioned as a multi-specialist investment firm. Its offer seeks long-term performance through active investing and strong convictions based on a tradition of constant innovation. This builds on recognised areas of expertise such as European and US equities, corporate debt, multi manager, currency overlay, asset allocation and quantitative asset management.

Edmond de Rothschild Asset Management had close to €45bn under management at 30 June 2014 and employed 550 people including 100 investment professionals.



**EDMOND
DE ROTHSCHILD**

1. Past performance is not consistent over time and is not a reliable guide to future returns. Data as of 30/09/2014 for the C share class. Cumulated 5-year returns : +19.97%. Source: Edmond de Rothschild Asset Management (France).

The fund's main risks are: Risk of capital loss, interest rate risk, credit risk, Risk from participation in financial contracts and counterparty risk, Risks from emerging market investments, Credit risk from investing in speculative securities.

This UCITS is rated in category 3, in line with the type of securities and geographic regions detailed under the heading "Objectives and investment policy", as well as the currency of the unit.

October 10 2014. Non-binding document. This document is for information only.

Disclaimer: The data, comments and analysis in this bulletin reflect the opinion of Edmond de Rothschild Asset Management (France) and its affiliates with respect to the markets and their trends, their regulation and tax treatment, on the basis of its own expertise, economic analysis and information currently known to it. However,

they shall not under any circumstances be construed as comprising any sort of undertaking or guarantee whatsoever on the part of Edmond de Rothschild Asset Management (France). All potential investors must take prior measures and specialist advice in order to analyse the risks and establish his or her own opinion independent of Edmond de Rothschild Asset Management (France) in order to determine the relevance of such an investment to his or her own financial situation. To this end, any investor shall read the key investor information document (KIID) delivered before any investment is made. Such a document is available online at www.edram.fr or upon request for free to the registered office of Edmond de Rothschild Asset Management. (France).

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (France)

47, rue du Faubourg Saint-Honoré
75401 Paris Cedex 08

Société anonyme governed by an executive board and a supervisory board with capital of 11.033.769 euros
AMF Registration number GP04000015
332.652.536 R.C.S. Paris