FOR PROFESSIONAL CLIENTS ONLY

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Capital is at risk. Please read full risk warning at the end of this document.

Monthly Commentary: July 2025

High Yield Fixed Interest

- Invests in a broadly diversified portfolio of high yield bonds issued across the US and Europe
- The four strong portfolio management team are supported by a wider fixed interest investment team of around 30 investment professionals
- Individual bonds carefully selected based on extensive ‘bottom-up’ research to target those bonds believed to offer the best risk and return characteristics

Market Update

The European High Yield (HY) market faded everything thrown at it this month with what at times felt like the calculated detachment of a seasoned market veteran. In June, the market shrugged off a worst-case scenario in the Middle East as U.S. airstrikes neutralized on Iranian nuclear facilities, followed by a very brief oil price spike and renewed fears around disrupted energy production. Markets also navigated rising economic and trade war uncertainty, as well as the U.S. “Big Beautiful Bill,” which, until late June, included retaliatory tax provisions under Section 899 targeting European corporates with U.S. subsidiaries.

While it felt as though markets finally learned the art of accurately and calmly seeing through headline risk, June’s resilience was actually grounded in two fairly unoriginal drivers: first, reflexive behavior built on the simple reality that “fading the tail” has worked since the Liberation Day shock in April, and second, more importantly, another month of a relentless technical bid for yield, despite spreads offering even less compensation for credit risk. Dedicated European HY funds took in another €1.7B in June, representing 1.8% of the market’s AUM. This brought the cumulative year-to-date inflow for this subset of European HY owners to €3.4B, or 3.6% of AUM.

As is typically the case, the supply side responded with heavy issuance as HY-rated companies capitalised on the strength. European HY new issue supply reached €26B in June, marking the largest supply month on record which quickly surpassed the previous record of €19B set last month. On the positive side, this issuance enabled European HY companies to make significant progress in pushing out their maturity walls, which has been an underlying concern for the asset class since the rate shock of 2022-2023. By the end of the month, European HY bond maturities due in 2026 stood at 6% of the index, compared to 10.8% at the end of May.

Figure 15: Monthly European High Yield Fund Flows

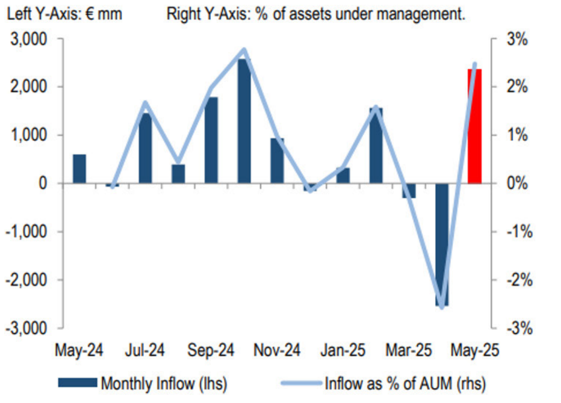
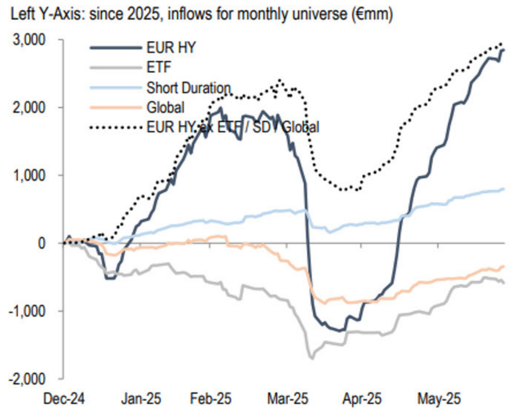


Figure 16: Cumulative Inflows for European High Yield



Of course, new issue spread premiums were almost non-existent in this environment, which put very little pressure on secondary spreads and did not hinder another month of positive total returns. For the month of June, the ICE BofA Euro High Yield Index returned +0.45%, bringing YTD returns to +2.75%, and spreads tightened 17 bps to 310. Under the surface, single B-rated bonds recorded a gain of +0.75%, BB-rated gained +0.54%, while CCC fell -1.58%, continuing the theme of performing credit compression and idiosyncratic risk dispersion.

Default rates ticked up to 5.5 %, with **Altice France** opening simultaneous U.S. and French restructuring processes to implement a consensual €7.5B write down of the existing €24B debt pile. Coincidentally, rumors shortly emerged of an ongoing process to sell the business at an estimated valuation of €23B, a value that would provide secured creditors a near-par recovery while unsecured creditors would receive approximately 50 cents on the dollar.

Fallen Angels totaled €2.8B notional (approximately 0.6% of AUM) and included the second European Grocer in 18months, **Metro AG**, as the sector continues to face cost pressures and intensive price focus competition alongside European bus concessions business **Mobico** and Industrials group **Kion**. Investment grade company, **Worldline** (largest payment provider in Europe), became a focus for the market after media led accusations that the company turned a blind eye to fraudulent business activity by some of its approximately €500B annually processed payments.

Company News

Dolcetto, an Italian generic pharmaceutical business (previously known as Doc Generici), returned to the European HY market after a 3-year hiatus; Dolcetto migrated to private credit markets through 2022 volatility when the business was bought by sponsor TPG. Dolcetto's new deal priced at 5.625%, leading to a substantial improvement in cash interest costs for the business compared to their prior private credit facility with a coupon of more than 8.5%.

Debut high yield bond issuance increased (also a typical development in the latter stages of a rally), highlighted by deals from two notable businesses. First, **Czechoslovak Group**, a leading European defence business, which saw very strong demand (the Euro tranche alone was more than 15x oversubscribed versus the initial €350m tranche size, upsizing to €1bn), priced at 5.25%, potentially reflecting the real time shift afoot in investor attitudes towards investing in defence companies. Second, **Mehiläinen**, a Finnish headquartered hospital business, issued its first European HY bond at 5.125%, having previously been a term loan only issuer.

Meanwhile, market stability also provided sponsors in the gaming space an opportunity to exit strong performing deals; Spanish operator **Cirsa** finally launched its long-expected IPO (rumoured since 2021), with proceeds being used to de-lever the business as sponsor Blackstone began to exit the deal. This transaction followed in the footsteps of Italian operator **Lottomatica**, which first listed on public equity markets back in May 2023, with June seeing sponsor **Apollo** selling down their remaining 21.3% to fully exit the deal.

Portfolio Activity

Activity was focused on capitalising on select opportunities available in the primary market in order to further upgrade the portfolio. Examples:

- **TeamSystem** - the largest Italian B2B Software provider, at 5% (EUR)
- **Techem** - a leading German energy services provider, at 4.625% (EUR)
- **Urbaser** -Spanish waste management platform with a presence in 16 countries, at 5.5% (EUR)
- As well as participating in the aforementioned **CSG Group**, **Dolcetto**, and **Mehiläinen** deals.

Data source: TCW and Morningstar

Investment Outlook

While the market seems poised for a quiet summer grind tighter—underpinned by strong technicals and the recency bias of successfully fading the left tail—we will be sticking to our long-established art of fading complacency. June's positive momentum may well persist through the summer, though we will remain focused on upgrading portfolio quality with an emphasis on less cyclical investments, avoiding severely mis-priced risk, and capitalising on idiosyncratic opportunities that present themselves amid the ongoing dispersion. We believe patience, selectivity, and a sharp focus on bottom-up fundamental portfolio construction will be key to performance in the second half.

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