



# Fund Manager Interview

Edmond de Rothschild Investment Managers

## Millésima 2015 : a new corporate bond fund to capture steady returns in an uncertain market



**Etienne Gorgeon**  
Director, Fixed Income and Credit

### Why did you launch Millésima 2015?

Since the beginning of the year, the credit has been a particularly attractive asset class. It offers the prospect of historic returns, which, moreover, are set to last. Companies have begun to clean up their balance sheets and now have better access to credit, and this improvement in their fundamentals should feed the rally. What's more, we know from experience that credit market trends manifest a degree of inertia. Once established, they can last for several years. The most recent bond rally ran for no less than four-and-a-half years! Today, the risk premium on the Investment Grade segment is around 170 bps, well above its long term average of 60 bps. Millésima 2015's goal is to take advantage of this trend and the opportunities offered by the euro-denominated bonds issued by industrial and financial companies.

### What's special about it?

This fund invests in Investment Grade securities, which means those with a rating above BBB-, but also in bonds rated High Yield — and that is its distinguishing feature. We restrict ourselves to the most defensive tranche in this segment, however, and only pick issues rated BB to B, as well as limiting our High Yield investment to no more than 20% of the net assets. Adding High Yield bonds to the fund allows us to increase

its expected return. The truth is that while the crisis is not yet over, markets are getting back to normal. This phenomenon has led to a drop in spreads on the credit market. As a result, risk exposure has to be raised in order to keep returns at a good level. The High Yield segment currently offers an additional return in the order of 10% per year while default rate forecasts are being steadily downgraded. What's more, this also allows us to broaden portfolio diversification.

### Are there other advantages to using High Yield bonds with those rated Investment Grade?

This combination enables us to capture credit performance regardless of the macroeconomic trend. If there's a recovery in growth that produces renewed inflation, the High Yield segment should continue to perform well as companies at risk will benefit from growth and so be able to repay their borrowings. On the other hand, if economic growth remains slack, the portfolio's fixed income component should hold up well. So it's the best possible combination given the current uncertainty as to how macroeconomic trends will unfold.

### How is the fund different from others in the Millésima range, and from traditional credit funds in general?

Given the success of RFS Millésima

Juin 2012 and LCF Millésima Avril 2014, which have fully satisfied our clients' needs, we wanted to extend the range by incorporating the new dynamics driving the market. Given the different market configuration prevailing at the time, RFS Millésima Juin 2012 and LCF Millésima Avril 2014 invested exclusively in bonds rated Investment Grade. Like its forerunners, Millésima 2015 will be investing both in the primary market, in order to benefit from the record volume of new issues, as well as in the secondary market.

Millésima 2015 has a maturity of six years (the average maturity of the securities held) in contrast to both other funds, which have a five-year maturity. This allows us to position the fund on the most liquid points on the yield curve (namely at 3 years, 5 years and 7 years), which are those with the most new issues.

Also, in contrast to traditional credit funds — where performance depends on market configuration — Millésima 2015 generates steady returns which, provided there are no defaults and the investor remains invested through to June 30, 2015, are not subject to market risks.

### What are its performance targets?

The goal of Millésima 2015 is to beat a French Treasury bond (OAT) with the same maturity. Given the conditions on today's market, we can expect a gross

annual return of 6% by the end of the period. It is therefore recommended that you remain in the fund for a period of close to six years as market movements during the life of the fund could impact NAV adversely. What's more, in order to meet the fund objective, we pay particular attention to debt stability. Accordingly, particular measures will be taken to protect investors through the use of an appropriate fee structure (with subscription fees attributed to the fund from the end of the subscription period and redemption fees attributed to the fund in the first year). Moreover, once the fund has raised its target of €200 million, it will be closed to subscribers.

### What sorts of risk are associated with such a fund, and how are they controlled?

The fund is not exposed to market risk as the securities are held throughout their life to maturity in order to provide steady returns. The principal risk that the fund runs is default risk. The coupons that the issuers pay feed the fund. If one of the selected issuers defaults on its debt, it will no longer be able to pay out its coupon. In order to avoid any default risk to the securities in the portfolio, sophisticated in-depth financial analysis is carried out when picking the securities. Lastly, the fund does not run any foreign exchange risk since it only picks issues that are denominated in euros.

### How is bond picking carried out and how is the fund management team structured?

The team's objective is to build a portfolio with maturity close to June 2015. The portfolio's overall maturity can be adjusted during its lifetime in order to match the desired investment horizon. All bonds picked, regardless of their rating, must offer high visibility in terms of financial strength. What's more, only

so-called senior bonds are held, namely those with high repayment priority in the event of an issuer default. The portfolio will be focused on about 50 lines. Lastly, we will seek a high degree of diversification by sector. The fixed income and credit fund management team comprises seven fund manager-analysts, each with an average of 13-year experience on bond markets. Each is a specialist in a clearly identified sector with responsibility for their own investment choices. Issuer selection is based on a robust investment process that reflects the fund managers' strongest convictions. It incorporates strict and carefully defined risk control procedures.

### Who is the fund intended for?

The fund is intended for all investors seeking steady returns who are not satisfied with money market investments that offer low income — but would prefer to steer clear of a stock market considered to be too volatile. Compared with these two asset classes, Millésima 2015 offers a particularly attractive risk/reward profile and provides a solution that is highly ap-

propriate for a market environment that, despite all, still remains uncertain.

### Where does the fund fit in terms of asset allocation?

The fund has a conservative profile. For an institutional investor, it could be used in the core portfolio, given its risk profile. So, despite the returns targeted, it is not a diversification product, but really a defensive yield fund. For the private client, the fund can also be regarded as a real alternative to the euro contract, offering a relatively similar risk level but with more attractive returns.

MILLESIMA 2015 - CHARACTERISTICS		
	'A' and 'B' share	'C' and 'D' share
<b>ISIN Codes</b>	'A' share: FR0010793703 'B' share: FR0010798538	'C' share: FR0010798553 'D' share: FR0010798561
<b>Income attribution</b>	A' and 'C' shares: Capitalisation 'B' and 'D' shares: Distribution (Share expressed to three decimal places)	
<b>Net asset value</b>	Daily	
<b>Terms of subscription &amp; redemption</b>	Daily before 11 a.m. (Paris time)	
<b>Subscription fee</b>	Maximum 4% incl. VAT (not attributed to fund) 1% incl. VAT from January 4, 2010 (attributed to fund)	
<b>Redemption fee</b>	Maximum 4% incl. VAT (not attributed to fund) 1% incl. VAT to December 31, 2010 (attributed to fund)	
<b>Management fee (fixed)</b>	Maximum 0.30% incl. VAT	Maximum 0.90% incl. VAT
<b>Minimum initial subscription</b>	1 share	
<b>Initial NAV</b>	€500 000	€1 000

#### Disclaimer and Risks

Edmond de Rothschild Investment Managers is the commercial trade mark for the EdRIM Solutions and its asset management subsidiary, EdRIM Gestion.

The fund mentioned in this material is solely intended for distribution to retail investors and for sale to institutional investors in France. The figures mentioned refer to the past. Past performances, data are not reliable indicators of future performances, data. This document is provided for information purposes only and is not legally binding. The figures, commentaries and analysis in this document reflect the views of the LCF Rothschild Group or EdRIM Gestion as regards the markets, their movements, their regulation and their taxation, taking into account the companies' expertise, economic analysis and information held at the present time. They shall not be construed in any way whatsoever as an undertaking or guarantee on the part of the LCF Rothschild Group or EdRIM Gestion. All potential investors must consult their investment service provider or advisor in order to form their own opinion as to the risks inherent in each investment, independently of the Group LCF Rothschild, and on whether the risks are appropriate to their own financial and personal situation. Potential investors must familiarise themselves with the simplified prospectus authorised by the AMF of the fund which is provided to them prior to investment and which may be obtained from the website [www.edrim.fr](http://www.edrim.fr) or on request from the head office of EdRIM Gestion. In compliance with Article 314-76 of the General Regulations of the French market authority, the AMF, the client may request further details on any remuneration provided with respect to the distribution of this product.

Main risks for Millésima 2015 : credit risk, interest rate risk, capital loss risk, discretionary management risk, counterparty risk, risk associated with financial contracts, risks associated with hybrid products (convertibles). The main risks for each fund are listed in their full prospectus.

#### Sales contact

Phone number : +33 1 40 17 70 25

#### EdRIM Gestion

47, rue du Faubourg Saint Honoré  
75401 Paris Cedex 08  
SA à Directoire et Conseil de Surveillance  
au capital de 3.000.000 Euros  
437 715 758 R.C.S. Paris  
N° TVA FR86437715758