30 June 2024

Destination Dynamic Income TR Fund

Commentary | Q2 2024

Market View*

The second quarter began with the market being driven by strong **economic data** in April, showing a resilient global economy, aside from a handful of key exceptions e.g. China. On the back of this, rates remained elevated throughout April with UST 10-years rates peaking at 4.71% in late April. But in May and June, we finally began to see a more mixed picture e.g. Labor market data, retail sales and housing starts. This was furthered in early July by ISM data for both manufacturing and services, as well as revisions of prior payrolls data, showing some signs of 'below the surface' weakening.

The mixed data, led to a pause in rising **rates**, and in both May and June, there was a sharp drop in rates, as much as -43bps in the UST 10-years from the 4.71% peak in late April, to 4.28% by the end of the first week in July. The market has also witnessed a steepening of the UST 2s-10s curve, moving from -49 bps in mid-June to -32 bps. The market discussions changed from asking whether there would be any Fed Funds rate cut at all in 2024, to the market pricing in two full rate cuts in 2024, one in September and another in December.

Using the S&P 500 as the benchmark, the **equity market** had a healthy +4% move during the quarter and then added a further 2% just in the first 5 days of July. During the quarter the Global Aggregate bond index recorded a decline of -1.1% while the European and US high-yield indices recorded performances of +1.4% and +1.1% respectively. Technical factors such as solid inflows likely played a significant role in the high-yield outperformance.

Emerging markets corporate debt performed positively in the quarter generating +1.3%. This is a good performance considering that during the quarter, there was a negative hit to assets in both Mexico and Brazil, especially their currencies. Overall, the second quarter witnessed a further increase in **global interest rates,** marked by Bund 10-year rates rising from 2.3% to 2.5%, peaking at 2.69% in late May. Simultaneously UST 10-year rates advancing from 4.2% to 4.4%, peaking at 4.71% in late April, but then cooling off significantly by the end of the quarter.

*source of data: Bloomberg, end of June.

Portfolio update

The portfolio generated positive returns in the second quarter, primarily driven by carry across both the **Income** and **Special Situations** strategies.

The second quarter of 2024 was a volatile period for global interest rates when overall rates ended higher, and spreads also widened in both Investment Grade and High Yield. The Fund, however, generated a positive performance of +0.49%. This was achieved by holding a portfolio that generated enough carry to more than offset the impact of higher rates and wider spreads.

The **Income** strategy made a positive contribution with the strongest contributors being **Energy and Financials**. Other sectors that contributed significantly were **Real Estate** and **Utilities**. Global rates have moved higher in the quarter, so carry generated via the Income strategy, remains healthy.

The **Special Situations** strategy made a positive contribution from investments in **Emerging Markets**. The best individual performer was once again the *Gol Linhas Aereas 2026* bond, which continued to perform well as the creditor group moved the situation towards a bond restructuring. Other contributors were *PDVSA* and *Genel Energy*. Asset prices in Venezuela/*PDVSA* rose higher as the country is now moving closer to 28 July 2024, the current planned date for Presidential Elections.

The **Macro** strategy experienced a small negative result, coming mainly from our Currency sub-strategy.

The overall portfolio's **duration** is close to 4 years, while reducing our spread duration and overall high-yield exposure. Recent US macro-economic data suggests some evidence of a slowdown. This could lead to lower risk-free rates combined with spread widening in the high-yield market. We have countered the reduction in carry from our high-yield risk reduction by adding hybrid bonds in strong issuers with short-dated calls.

As we enter the third quarter, the market feels like it may be entering a period with competing forces of 'push and pull'. **Credit market** technicals remain firm and the strong equity market supports the tight spreads in the lower rated credits. As we enter the second half of the year, the macro-economic picture could be changing. This mixed bag is likely to present our multi-strategy fixed income mandate with several very interesting opportunities.

Disclaimer Destination Dynamic Income TR Fund

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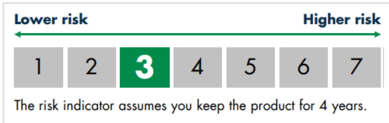
Investment objective: the objective of the Sub-Fund is to achieve an attractive risk adjusted total return through medium- term capital appreciation and income generation. The Sub-Fund is actively managed and does not make its investments in reference to any benchmark, meaning individual positions are actively selected based on specific research and valuation assessments. While the Sub-Fund is actively managed and does not use a benchmark for portfolio allocation, the Sub-Fund references the €STR Index for performance fee's calculation purposes. There is no guarantee that an investment objective will be achieved or that a return on capital will be obtained. The sub-fund does not benefit from any guarantee to protect the capital.

RISKS



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Before making any investment decision, please read the Prospectus and the Key Information Document (KID), in particular the risks section and costs. (#) Based on the latest KID - May 2024.

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