

31<sup>st</sup> July 2024

**Marketing Communication for professional investors.**

Please refer to the Prospectus and KID before making any final investment decisions.

## **Destination Dynamic Income Total Return Fund** **Commentary | July 2024**

### **Markets Update**

In July, **global rates** had a sharp move lower- Bund 10-year rates fell 20 basis points ('bps') from 2.5% to 2.3%, while UST 10-year rates fell by 37 bps (far more than Bunds), from 4.4% to 4.03%.

Within the **credit** landscape, **Investment Grade CDS spreads** in both Europe and the US tightened from 61 to 55 and 53 to 52, respectively. Meanwhile, **High-Yield CDS spreads** tightened from 319 to 295 in Europe and from 344 to 331 in the US.

### **Portfolio Returns and Activity**

The portfolio generated a return in **July of +1.83% net**, taking the Fund's **inception** to July 2024 performance to **+11.25% net**.




In our previous commentaries, we had discussed 'below the surface' weakening in the US macro-economic data and we had referred to the more 'mixed' data that we had seen in May and June across the Labor market, Retail Sales and Housing Starts. We also referred to the early July data on ISM and we concluded that recent data suggested some evidence of a slowdown and that this "could lead to **lower risk-free rates**".

In early July we had noted **two key features** in the US macro-economic data: (1) a stream of data confirming that inflation was very likely getting under control and (2) some signs of a weakening US economy.

We took the view that, **US rates** should now begin to move down materially and HY spreads should begin to widen. We focussed on US rates given they had much further to come down than EUR rates and the US was where the **macro-economic data** was possibly inflecting.



To express these core views in the Destination Dynamic Income TR portfolio, we: (1) added more duration across the portfolio using a combination of US Treasuries in the 5-year tenor and high quality long-dated bonds, (2) materially reduced our high-yield bond positions and (3) added some HY spread protection by buying European XOVER CDS. These trades worked very well for us in July, and helped us generate a strongly positive month, while the market sold off towards the end of July.

<p><b>Macro</b> +0.84%</p>		<p>The Macro <b>Strategy</b> generated a 0.84% (gross) return during the month, of which 0.05% was carry and the bulk of the remainder was from the added duration via US Treasuries, which benefitted from a strong rally in rates during July.</p>
<p><b>Income</b> +1.12%</p>		<p>Our <b>Income Strategy</b> generated a return of +1.12% (gross), of which +0.32% was from carry. The main sector contributors to the <b>Income Strategy</b> in July were <b>Financials, Energy and Utilities. Credits</b> which performed well in July were Barclays, HSBC, Axa, BFF, Aviva, Zurich, Ecopetrol, Petrobras, Var Energi, Enel and EDF. Strong contributions came from the long-dated high-grade bonds that we added to increase duration and from French issuers recovering post-election.</p>
<p><b>Special Situations</b> +0.28%</p>		<p>Our <b>Special Situations Strategy</b> generated a return of +0.28% (gross), of which +0.08% was from carry. The main strong performer in this strategy in July was our Ukraine sovereign exposure, where the restructuring terms were finally announced, and they were more creditor-friendly than market prices had implied to date. Both the bonds and the warrants rallied.</p>

The FOMC meeting on 31 July left rates on hold but the Fed indicated that a September cut is highly likely. Currently (8<sup>th</sup> August) the market is pricing in 103 bps of cuts by year end and 124 bps by 29<sup>th</sup> January 2025.



## 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

**Summary Risk Indicator** The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. We have classified this product as 3 out of 7, which is a medium-low risk class. This rates the potential losses from future performance at a medium-low level, and poor market conditions are unlikely to impact the capacity of Generali Investments Luxembourg S.A. to pay you.



**Costs:** Class R, Share: X EUR Accumulation (ISIN: LU2597958268, registered in Austria, Switzerland, Germany, Spain, France, Ireland, Italy, Luxembourg and Portugal). One-off costs upon entry or exit - Entry costs: 4%, of the amount you pay in when entering this investment. This is the most you will be charged. Exit fees: 0%, we do not charge an exit fee for this product, but the person selling you the product may do so. Ongoing costs taken each year: Management fee and other administrative or operating costs: 1.31% per year (including 1,10% Management fees) of the value of your investment. This is an estimate based on actual costs over the last year. Transaction costs: 0.15% per year of the value of your investment. This is an estimate of the costs incurred when we buy and sell the underlying investments for the product. The actual amount will vary depending on how much we buy and sell. Incidental costs taken under specific conditions: Performance fee: 0%. The performance fee is calculated in accordance with the "High Water Mark with Performance Fee Benchmark" mechanism with a Performance Fee Rate of 15.00% per annum of the positive return above the "€STR Index" (the Performance Fee Benchmark).

The performance fee and the management fee are calculated and, where applicable, accrued separately for each share class within a sub-fund on each valuation day. The costs may increase or decrease as a result of currency and exchange rate fluctuations.

This is not an exhaustive list of the costs. Other costs apply and differ per share class. Before making any investment decision, please read the Prospectus and the Key Information Document (KID), in particular the risks and costs sections.

**The actual amount will vary depending on the performance of your investment.** Tax aspects depend on the individual circumstances of each client and may change in the future. Please consult your financial advisor and your tax advisor for more details. Please refer to the countries of distribution and the website of the management company to find out if a class is available in your country and for your group of investors.

**Currency:** EUR. When the reference currency of the sub-fund or class differs from the one of your country, the currency fluctuations may have a negative impact on the net asset value, the performances and costs. Returns may increase or decrease as a result of currency fluctuations.

**Main risks:** interest rate risk, credit risk, emerging market risk (including China). There is no pre-determined limitation on exposure to emerging markets. Emerging markets risk may therefore sometimes be high, frontier markets risk, currency risk, volatility risk, liquidity risk, derivatives risk, short exposure risk, securities risk distressed debt, securitized debt risk, contingent equity risk ("CoCos"), Rule 144A / Regulation S Securities, Equity Risk, Commodity Risk The use of leverage may increase the risk of potential losses or increase return potential. Considering the investment strategies characterising the Sub-fund, the expected level of leverage of this Sub-fund may vary up to 350%, excluding the portfolio's total net value. Considering the investment strategies characterising the Sub-fund, the expected level of leverage of this Sub-fund may vary up to 350%, excluding the portfolio's total net value. The use of leverage may increase the risk of potential losses.

**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.

**SFDR classification:** The Sub-fund promotes environmental or social characteristics as per Article 8 of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"). It does not have sustainable investments as its objective. Before making any investment decision, please consider all the ESG characteristics, approach, binding elements of the selection process and methodological limits contained in the SFDR Pre-contractual annex of the prospectus, as well as the Summary of the website Product disclosure, available in English and in an official language of the EU country of registration, available in the "Sustainability-related Disclosure" section of the website fund page: [www.generali-investments.lu](http://www.generali-investments.lu).



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