INVESTMENT OBJECTIVE

The objective of the Sub-Fund is to increase the value of its assets over the short to medium term, it will invest in debt securities and all sort of money market instruments, including deposits. Debt securities will include, amongst others, bonds, certificates, and commercial paper. The sub-fund shall not invest more than 10% of its assets in units of UCITS or other UCIs. The weighted average maturity of the investments of the portfolio will not exceed 3 years (the residual maturity of each investment does not exceed 5 years). The sub-fund may use all types of financial derivative instruments traded on a Regulated Market and/or OTC for efficient portfolio management and investment purposes.
MANAGEMENT TEAM INSIGHT

The publication of GDP data showed a contraction for the second quarter of 2020 of -12.1% in the Euro Zone economy, in addition to the -3.6% contraction recorded in the first quarter. This fall far exceeds the ones which occurred in the past financial crisis. Meanwhile, US GDP contracted further, reflecting a quarterly decline of -32.9%.

In monetary policy, the focus was on the deal of the expected European Reconstruction Fund, after a long negotiation. The agreement finally amounted to 750 billion euros, 390 as of transfers and the remaining 360 billion was of loans. This, represents an important support for the especially affected economies by the health crisis and force them to implement reforms. The agreement brought significant debt relief to outlying countries, which saw their risk premiums fall, with the Italian sovereign curve being particularly favored.

The fixed-income market continued its trend of recovery and narrowing of credit spreads, which began in mid-March. The European investment-grade credit is now only 18 bps at pre-crisis levels. High yield credit, despite its notable improvement from March levels, is still around 170 bps from the levels at the beginning of the year, due to the higher risk of default associated with it. The news about the European Reconstruction Fund agreement also led to a favorable movement in the government curves, more intense in the peripheral regions, with purchases being concentrated in the longer terms, leading to a flattening of the curves.

The fund closed the month of July with a positive return of 0.43%, accumulating a return of -0.03% this year. This brings the fund back to a better return than money market funds and lower volatility than fixed income funds. The sectors with the best contribution to the fund were non-cyclical consumption, communications and utilities. Only hedge futures contributed a negative return of -0.03%. The movements in the portfolio were aimed at reducing the weight of those bonds that have recently experienced a greater appreciation and mainly of maturities greater than three years. With this strategy we reduced the credit sensitivity and duration of the fund, a slightly more conservative positioning in view of the holiday period, in which there is traditionally a lack of liquidity in the fixed income market. The average rating of the portfolio is A-, trying to avoid possible falling angels and any company with news that could generate instability in the current environment of high uncertainty.

We maintain dynamic and flexible management of the fund's duration through futures trading. We have slightly reduced the fund's duration to 1.40, following the changes mentioned above.