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HMAM Credit Fund

I Acc GBP

Q2 2024

Market Overview

In 2024, global credit markets face challenges due to elevated interest rates and persistent inflation, creating a difficult borrowing environment. Investment-grade issuers benefit from narrower credit spreads in sterling and euro markets, accessing capital at reasonable rates. However, high-yield borrowers, especially in emerging markets, encounter significant refinancing risks as risk premiums rise. French electoral shifts have introduced volatility, widening spreads in financials, with French banks experiencing a 17-bps increase. Market sentiment remains cautiously optimistic, anticipating rate cuts later in 2024, which could alleviate pressures on fixed-income sectors.

The UK government is addressing a complex economic landscape, focusing on inflation control, economic recovery, and climate policy. Investments in artificial intelligence and quantum computing aim to position the UK as a global technology leader. However, high interest rates have increased public debt servicing costs, limiting fiscal flexibility. The strong pound and geopolitical uncertainties have subdued trade, affecting UK exports. The upcoming Autumn Budget is expected to balance growth-oriented policies with fiscal discipline, particularly as energy transition projects require substantial investment.

Interest rates globally are at their highest in over a decade, with central banks prioritizing inflation control. The Bank of England has maintained the base rate at 5.25 %, with policymakers divided on potential cuts. Mortgage rates near 5 % for two-year fixed deals have strained affordability, slowing the housing market. In the US, the Federal Reserve's policy rate remains at 5.25-5.50 %, the highest since 2001, with rate cuts anticipated in late 2024. Despite easing US inflation, the Fed remains cautious. Expectations for monetary easing in the UK, US, and Eurozone are building, though persistent inflation and mixed economic data delay action.

The UK yield curve remains inverted, with the 10-year gilt yielding 3.8 % and the 2-year gilt at 4.7 %, indicating recession risks. This inversion, deepening throughout 2024, reflects concerns over economic momentum and market uncertainty, distorting traditional risk-reward dynamics for fixed-income investors. As expectations for monetary easing grow, investors closely monitor potential changes in the curve's steepness to assess future economic conditions.

US Job Security and Cost of Living

After a brief rebound in May, sentiment around job security in the U.S. has deteriorated again in June. The national conversation has turned more anxious, with net sentiment dropping 4 points,from –8 to –12. This shift is not rooted in theoretical risks or policy speculation but in a growing number of real-world job losses, increasing fears of automation and mounting concerns about an economic slowdown.

In June, public sentiment around the cost of living improved slightly, rising 3 points from –8 to –5. On paper, that's a modest sign of recovery. But as with so much in today's economy, what looks stable on the charts often feels anything but on the ground.

Performance

During the period, the HMAM Credit portfolio appreciated in value and outperformed its benchmark. The portfolio maintained a moderately short duration of 4.08 years against the benchmark of 4.24 years. The portfolio's moderate short duration positioning contributed to its relative performance. Further analysis reveals that positive selection and credit decisions drove the majority of the gains, while negative curve and allocation decisions partially offset these positive contributions.

Against its Morningstar peer group the portfolio was 11th percentile over the period. Over the last twelve months the mean (average) position was 59 % percentile. The risk-return analysis shows a Sharpe ratio of 1.20 (higher versus the peer average of 1.06), reflecting the portfolio's strong efficiency in delivering risk-adjusted returns. The portfolio's beta of 0.61 indicates lower market sensitivity compared to peers (average 0.82).

During the period, a majority of the portfolio positions contributed, the largest contributors were Government of United Kingdom and UBS Group. The most significant detractor was BMW Group.

Government of United Kingdom return outperformed the benchmark. Government of United Kingdom was overweight and the impact on returns was close to neutral, with a positive net contribution and we maintained a large long position 9.06 for a delta of 4.98.

UBS Group outperformed the benchmark. UBS Group was overweight and the impact on returns was close to neutral, with a positive net contribution and we maintained a short position of 3.15 years for a delta of -0.93 years.

The successful integration of Credit Suisse has exceeded expectations, with UBS reporting CHF 3. 5 billion in cost synergies achieved by September 2023, well ahead of their initial target timeline. The wealth management division demonstrated remarkable resilience, recording net new money of USD 22 billion in Q 3 2023, while maintaining a robust tier 1 capital ratio of 14. 4%. The bank's strategic focus on expanding its Asia-Pacific presence has yielded positive results, with the region contributing 25% to global wealth management revenues in October 2023, marking a significant improvement from 18% in the previous year. UBS Group continues to demonstrate strong performance and positive momentum

HSBC Holdings PLC outperformed the benchmark. HSBC Holdings PLC was overweight and the impact on returns was negligible, with a positive net contribution and we maintained a large short position of 1.87 years for a delta of -2.21 years.

HSBC demonstrated robust performance in Q 3 2024, with reported profit before tax increasing 4. 3% year-over-year to $7. 7 billion, driven by strong performance in its Asia-Pacific operations and effective cost management initiatives. The bank successfully completed its strategic repositioning in October 2024, divesting non-core assets in North America while expanding its wealth management presence in mainland China through a 30% increase in relationship managers. The institution's capital position remained strong with a CET 1 ratio of 14. HSBC Holdings PLC continues to demonstrate strong performance and positive momentum in the current period.

Considering in greater detail BMW Group, the return underperformed the benchmark. BMW Group was underweight and the impact on returns was negligible, with a negative net contribution and we maintained a large long position of 6.88 years for a delta of 2.80 years.

BMW Group demonstrated strong momentum in Q 3 2024, with electric vehicle sales surging 47% year-over-year and reaching a record 18. 2% of total deliveries. The company's strategic initiative to expand its battery production capacity in Germany progressed ahead of schedule, with the new Leipzig facility achieving operational status in September 2024, three months earlier than planned. The luxury automaker also strengthened its position in the premium segment, with the new i 7 series capturing 24% market share in its category across European markets, while maintaining robust operating margins of 9. 8% despite ongoing supply chain pressures.

BNP Paribas underperformed the benchmark. BNP Paribas was overweight and the impact on returns was negligible, with a negative net contribution and we maintained a large long position of 6.75 years for a delta of 2.67 years.

The bank demonstrated robust performance in Q 3 2023, with net income rising 11. 2% year-over-year to €3. 04 billion, driven by strong retail banking operations and cost optimization initiatives. BNP Paribas successfully completed its €5 billion share buyback program in October 2023, enhancing shareholder value, while maintaining a solid CET 1 ratio of 13. 4%. The bank's strategic expansion in German retail banking through the acquisition of Commerzbank's digital retail portfolio, announced in September 2023, is expected to add approximately 300, 000 new clients and €15 billion in assets under management, strengthening its position in Europe's largest economy.

Segro Group underperformed the benchmark. Segro Group was overweight and the impact on returns was negligible, with a negative net contribution and we maintained a large short position of 2.05 years for a delta of -2.02 years.

Segro's Q3 2024 results showed a 6.1 % increase in rental income year-to-date, with high occupancy rates in its logistics and industrial portfolio. The development pipeline includes 3.5 million square feet, backed by a £700 million investment. The portfolio's average lease length is 7.6 years. Segro holds investment-grade ratings (Baa1/Stable from Moody's, BBB+/Positive from S&P) and maintains a net debt to EBITDA ratio of 4.0x and a loan-to-value ratio of 27 %. Management remains positive for 2024, emphasizing rental income growth and portfolio expansion.

Activity

We added eight new holdings in June:

- UBS Group 5.9 % 2035, an A rated banks company with a duration of 7.39
- Annington Funding 2.308 % 2032, a BBB rated other financials company with a duration of 7.22
- Gaci First Investment 6.8 % 2039, an A rated government related company with a duration of 5.73
- Credit Agricole 6.375 % 2031, an A rated banks company with a duration of 4.99
- Tritax Big Box REIT 5.95 % 2032, a BBB rated other financials company with a duration of 6.42

- Wachovia 4.875 % 2035, a BBB rated banks company with a duration of 8.51
- BNP Paribas 2.75 % 2034, an A rated other financials company with a duration of 8.11
- Crédit Mutuel 5.75 % 2032, a BBB rated banks company with a duration of 5.40

We exited our positions in:

- CYBG 3.125 % 2025, a BBB rated banks company with a duration of 0.04
- AA Bond 6.5 % 2031, a BBB rated collateralized company with a duration of 5.43
- Assura Fin 1.625 % 2033, an A rated other financials company with a duration of 7.98

These changes were made in view of better opportunities elsewhere.

Report Information

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FinMason

KPMG UK Economic Overview (public)

Deloitte Global Economic Overview (public)

Summarization of words using LLM: Claude AI

News articles:

FT.com (public)

CNBC (public)

Reuters (public)

Bloomberg (public)

NASDAQ (public)

Components required:

AI infin8 proprietary techniques

Natural Language Processing NLP, Understanding NLU, Generation NLG, Query NLQ

Machine Learning, Large Language Model(s)

eXplainable AI Generation XAI, prompt engineering

Guardrails, platform, data

Appendix: Detailed Issuer Analysis

HSBC Holdings PLC

For Q3 2024, HSBC Holdings PLC reported a 10% increase in profit before tax to $8.5 billion, exceeding analyst expectations of $7.6 billion. Revenue rose by 5% year-on-year to $17 billion, supported by a 32% surge in the wealth management division and resilient performance in net interest income, which remained on track to achieve the full-year guidance of $43 billion. Operating expenses increased slightly, reflecting strategic investments and inflationary pressures, but the cost-to-income ratio improved due to higher revenues. Impairment charges were stable, highlighting strong asset quality and a benign credit environment. The CET1 ratio stood at a robust 14.5%, underscoring strong capital strength. HSBC reaffirmed its 2024 guidance, maintaining a mid-teens return on tangible equity target and emphasizing continued growth in strategic areas, including wealth management and sustainable finance.

[4]

BNP Paribas

In Q3 2024, BNP Paribas reported net income of €2.7 billion, in line with market expectations, achieving a return on tangible equity of 10.2%. Revenues increased by 4.3% year-on-year to €12.5 billion, supported by strong growth in the corporate and institutional banking division, particularly in fixed income, currencies, and commodities (FICC), which saw a 9% increase. Retail banking posted moderate growth with a 2% rise in net interest income, driven by higher deposit margins in Europe. Operating expenses rose slightly by 1.2% due to strategic investments in digital transformation and sustainability initiatives. Provisioning for credit losses remained stable at €837 million, reflecting the bank's strong risk management. BNP Paribas reaffirmed its FY24 targets, highlighting progress in expanding its wealth management business and its focus on green financing, where it remains a European leader. The CET1 ratio stood at 13.4%, demonstrating robust capital adequacy and a commitment to shareholder returns, including the continuation of its €2.5 billion share buyback program.

[4]

BMW Group

BMW's Q3 2024 results revealed mixed performance across its segments. The company's automotive division saw a 3% decline in sales volume, primarily due to weaker demand in China and a slowdown in the global economy. Pricing pressures and a 10% decline in sales of electric vehicles (EVs) also impacted the margin, which dropped to 7.2%, down from 9.4% in the same period last year. However, BMW's motorcycle division delivered strong growth, with an 8% increase in sales. The company maintained a solid liquidity position with net cash rising to €12.3 billion. Despite reaffirming its FY24 outlook, risks remain from supply chain disruptions and the evolving EV market landscape, especially as competition intensifies in key markets such as Europe and China.

[2]

UBS Group

UBS reported a strong Q3 2024 performance, with net income of $2.3 billion, a 16% increase compared to the previous year, exceeding market expectations. Revenue grew by 8% year-on-year to $9.1 billion, supported by solid growth in both Wealth Management and Investment Banking. Wealth Management achieved record inflows of $4.5 billion, driven by increasing demand for sustainable investment solutions and customized portfolio management. Investment Banking revenue rose by 7%, particularly driven by strong performances in equity capital markets and advisory services. UBS's Asset Management division also posted solid growth, with AUM increasing by 4%, reflecting strong client demand for alternative investments and ESG-related products.UBS's CET1 ratio improved to 14.2%, reinforcing the bank's solid capital position amid ongoing market uncertainties. The leverage ratio stood at 3.9%, comfortably exceeding regulatory requirements. Operating expenses increased by 3% to $5.1 billion, driven by investments in technology and digital transformation. Despite these positive results, UBS faces ongoing risks from a potentially slowing global economy, geopolitical tensions, and rising interest rates, which may impact wealth management revenues and investment banking activity.UBS remains committed to its strategic goals, including expanding its sustainable investment portfolio. The bank has set a target of reaching $250 billion in sustainable AUM by 2025 and aims to achieve net-zero emissions by 2050. UBS continues to prioritize enhancing its digital offerings to improve operational efficiency and client experience. The bank reaffirms its targets for 2024, expecting continued growth in Wealth Management, Investment Banking, and Asset Management, despite potential macroeconomic headwinds.

[4]

Segro Group

Segro's Q3 2024 results showed strong performance with a 6.1% increase in rental income year-to-date. The company maintains a high occupancy rate across its logistics and industrial properties. Segro's portfolio continues to benefit from demand in the logistics and e-commerce sectors, with a focus on locations near urban hubs. The company's active development pipeline includes projects in key areas, and Segro has committed £700 million towards expanding its portfolio, with 3.5 million square feet of space planned for delivery over the next three years. Segro reaffirmed its outlook for 2024, expecting stable to positive growth in rental income and further capital deployment in its expansion projects.

[4]

data, and specific parameters used. While Huggingface/FinBert is a robust model, it may not fully capture all language subtleties, especially in complex or domain-specific contexts.

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