



HIGH YIELD EXPERTISE

Quarterly portfolio update

Webinar,
28.01.2021

% DPAM

DEGROOF PETERCAM ASSET MANAGEMENT



Risk markets have continued to grind tighter since June

- What are our return expectations for European high yield ?
- Default expectations and realized defaults: what were actual loss rates?





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1

MARKET UPDATE



CONCLUSIONS FROM OUR JUNE UPDATE

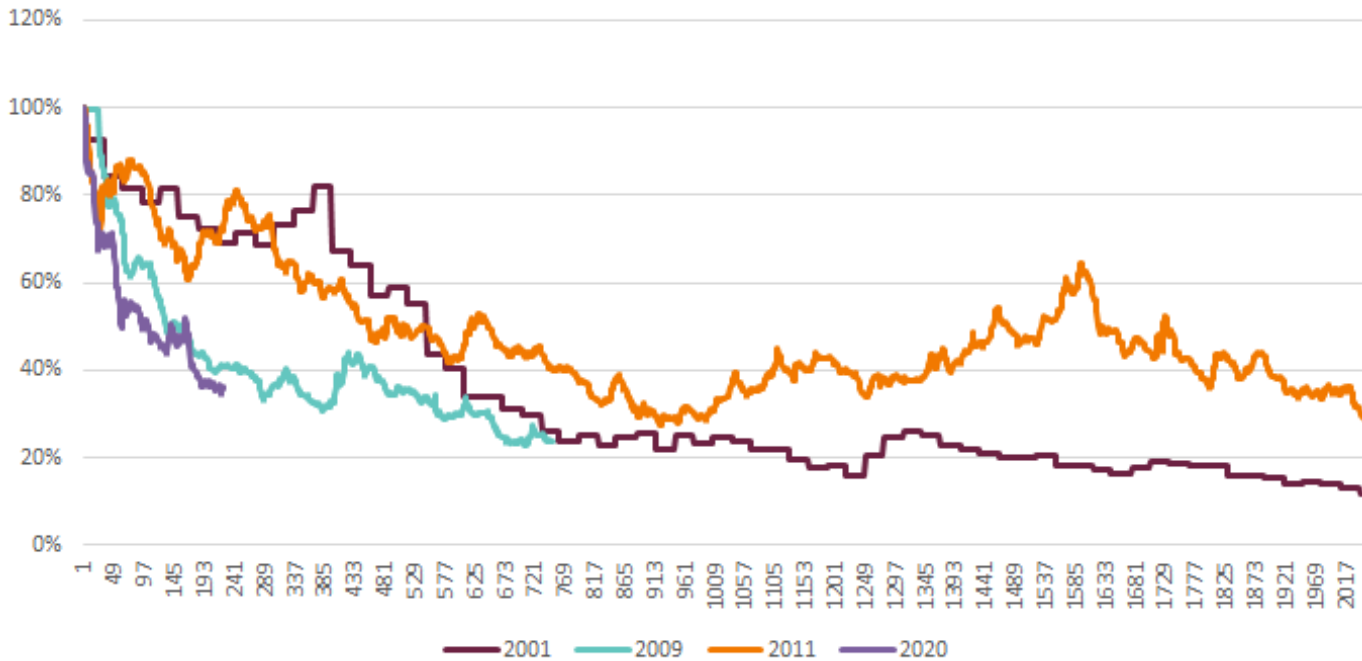
- Risk markets made a **significant move in April and May**.
- We expect to see a **gradual tightening** from here. 
- Visibility remains low but **monetary and fiscal stimulus** are creating the necessary condition to cure the patient. 
- **The correction so far has created value.** For investors with a somewhat longer time horizon (12 months), it makes sense to strategically add to positions. Scaling in gradually is the message though and one might face volatility. 



- The recovery continued, with some volatility -

SPREADS **TIGHTENED FROM MARCH 2020 ONWARD**

Number of days of pre-crisis level



Source: DPAM, 26.01.2021



- Default expectations often overstated -

MOODY'S FORECAST IN JULY 2020 FOR EUROPEAN DEFAULTS: BASE CASE: 6%; OPTIMISTIC : 4%; PESSIMISTIC: 15%

European speculative-grade default rates (actual and forecast)

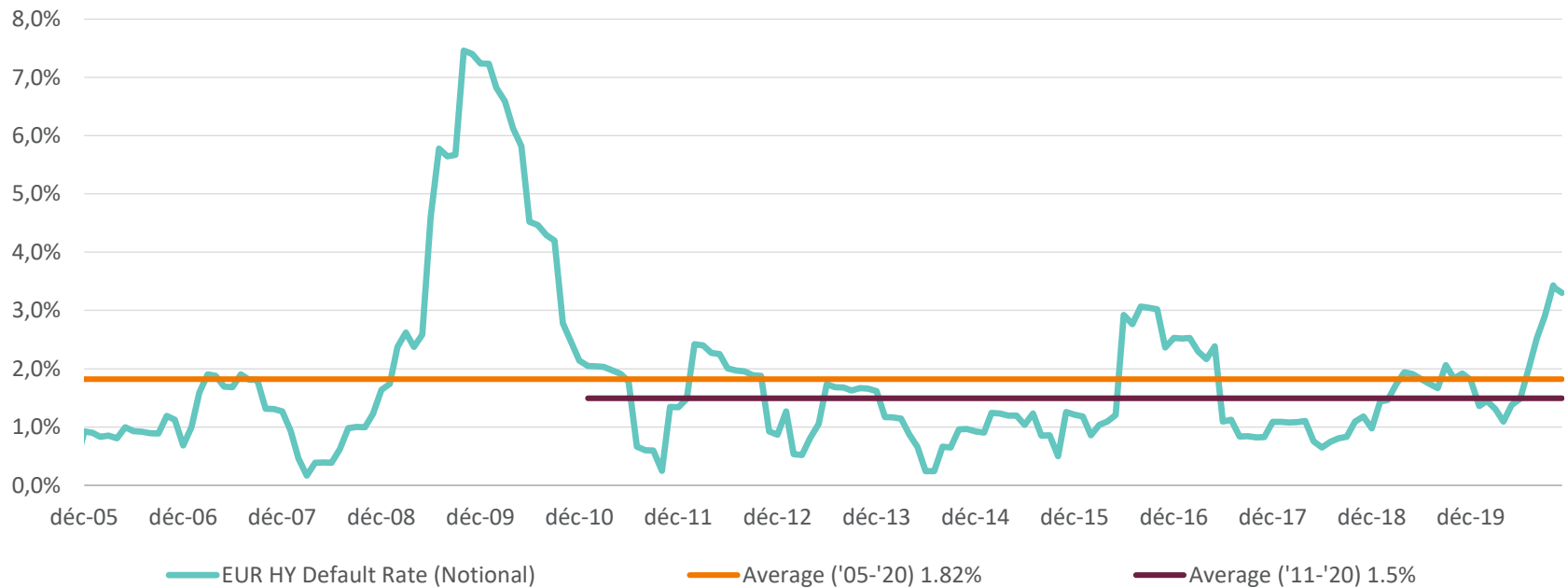


Source: Moody's Investors Service, 12.07.2020



- Debt moratoria, furloughed employees, extra liquidity loans, ... -

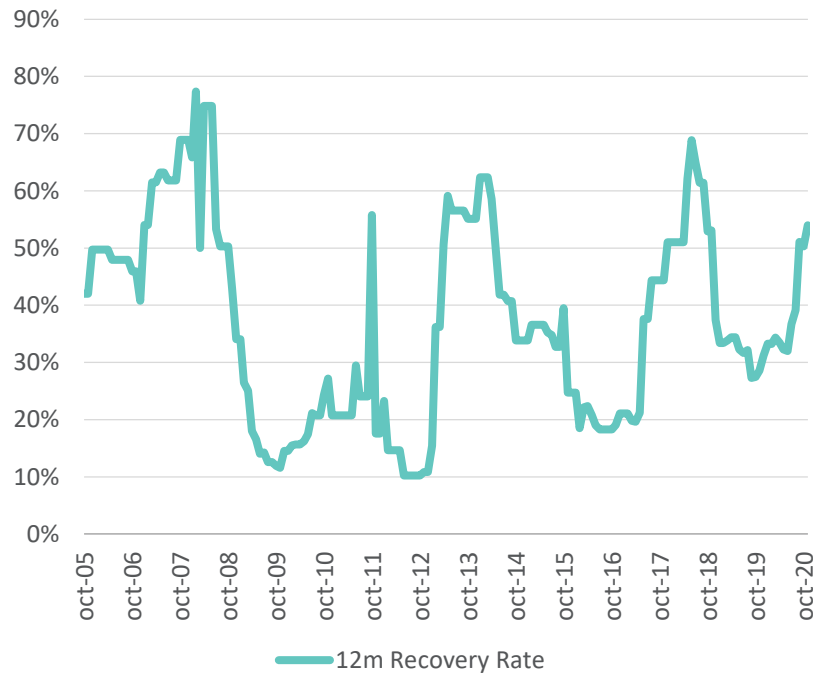
EUROPEAN HY DEFAULTS ENDED THE YEAR AT 3.3% IN 2020. AS A RESULT OF UNSEEN MONETARY AND FISCAL SUPPORT



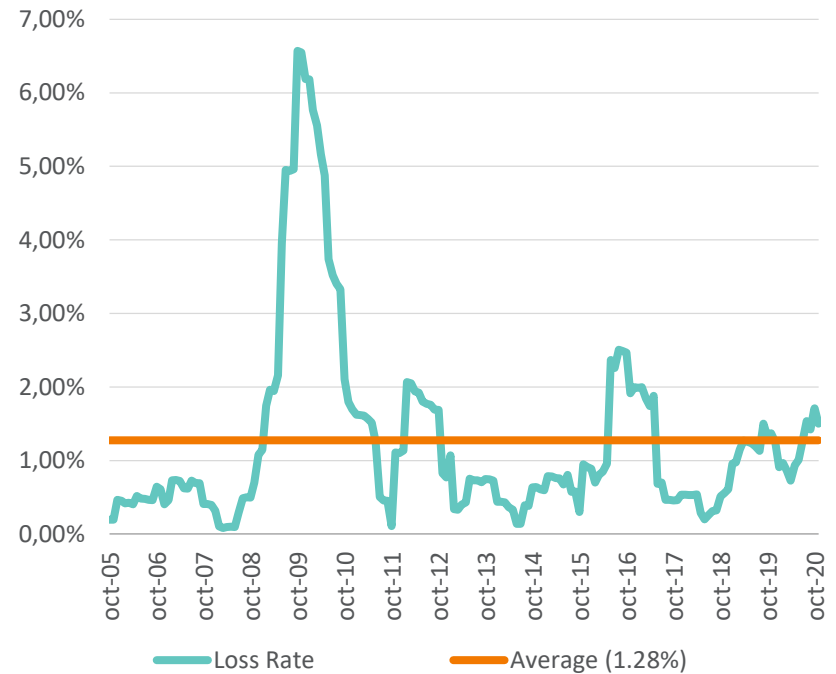
Source: JPMorgan, DPAM, 26.01.2021



IN ADDITION, **RECOVERY RATES** WERE UNUSUALLY HIGH, RESULTING IN **A VERY LOW LOSS RATE OF ONLY 1.5%**



Source: JPMorgan, DPAM, 26.01.2021

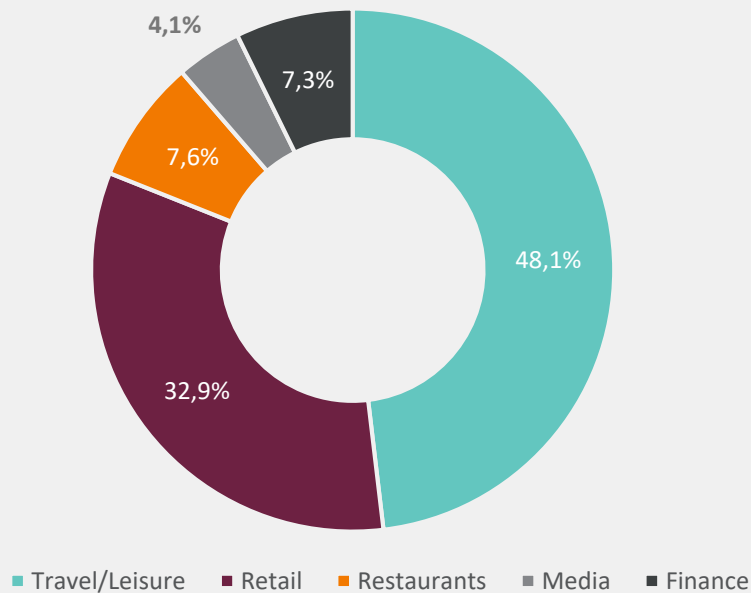


Source: JPMorgan, DPAM, 26.01.2021



- Travel, leisure and retail hardest hit -

DEFAULTS WERE CONCENTRATED IN **A FEW SECTORS**



Source: JPM, DPAM, 26.01.2021

- **Travel and leisure** were in the eye of the storm and were hard hit. Swissport, Europcar, Hertz, ...
- **Retail as well** with names like Takko, Hema, Dia.
- We do not expect defaults to significantly rise going forward:
 - The hardest hit players have been restructured and have a **much more sustainable capital structure**.
 - Two thirds of European high yield is in industries that are **industries that are not or hardly affected**.
 - Lifting the furlough schemes, debt moratoria etc. will likely have an impact on the SME market, **but companies with good access to capital** and that **are too big to fail** will likely continue to receive support.



- Remuneration for volatility and liquidity risk, on top of default risk (3.4% defaults, recovery of 35%) -

SO WHAT'S LEFT FOR INVESTORS? VALUATION – RISK PREMIUM



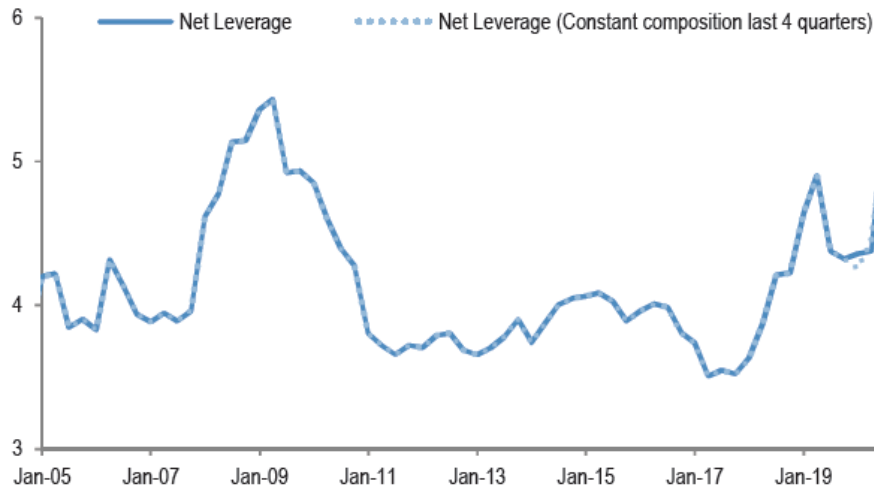
Source: DPAM, 26.01.2021



- Companies hoarding cash right after the first lockdowns -

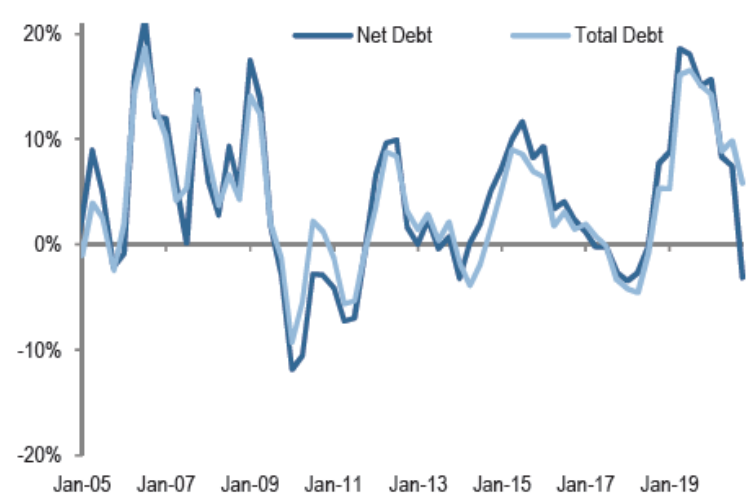
AREN'T WE AFRAID ABOUT **INDEBTEDNESS?** NET LEVERAGE INCREASING... BUT **LARGE CASH BALANCES**

Figure 1: European High Yield Issuer Net Leverage, x



Source: J.P. Morgan, Bloomberg Finance L.P. Weighted by debt outstanding.

Figure 5: 4-Quarter Change in Debt



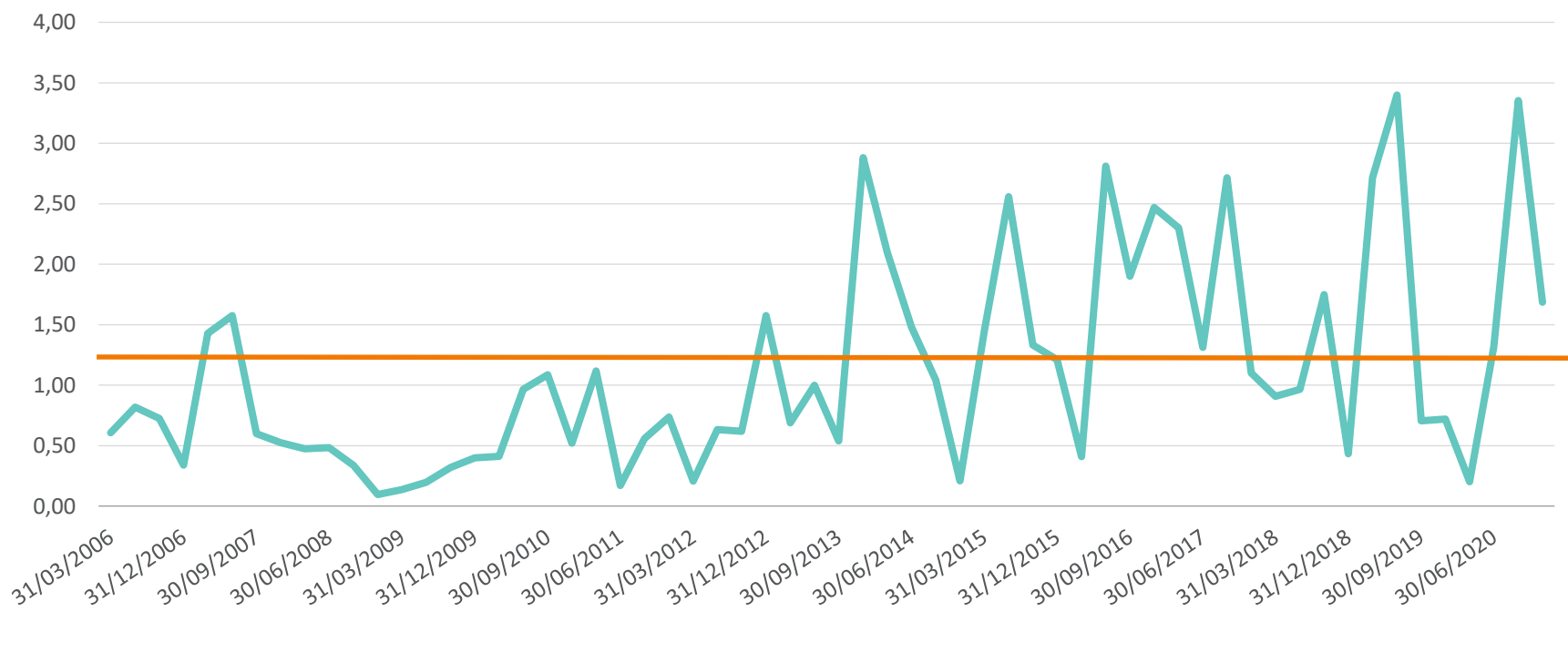
Source: J.P. Morgan, Bloomberg Finance L.P. Adjusted for composition change.

Source: JPMorgan, 19.01.2021



UP/DOWN RATIO OF RATINGS IN POSITIVE TERRITORY

Upgrades/Downgrades Moody's and S&P
(Western Europe HY - Source: Bloomberg)



Source: S&P, Moody's, Bloomberg, DPAM, 26.01.2021



SUMMARY

VALUATION

At current spread levels, we are entering a more **neutral stage** in valuation terms. This is bound to be a **carry environment** rather than a period which will see spreads significantly tighten. The **hunt for yield** will remain however a powerful bottom underneath any spread widening going forward. Risk premiums remain sufficient to cover for normal volatility and liquidity risks.

DEFAULT RATES

No pick-up in defaults expected. We see very **few distressed cases**, and in general cash balances are still very high, also for sectors that were hard hit. Ratings are also gradually improving across the board.



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PORTFOLIO / POSITIONING UPDATE



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EUR SHORT
TERM HIGH
YIELD

PORTFOLIO
CHARACTERISTICS

Current Income approach

SUMMARY (25.01.21)

AuM	323
YTW	1.50
OAD	1.87
BLOOMBERG COMPOSITE RATING	BB



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HIGHER YIELD

PORTFOLIO CHARACTERISTICS

Total Return approach

SUMMARY (25.01.21)

AuM	203
YTW	2.99
OAD	5.08
BLOOMBERG COMPOSITE RATING	BB



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CORPORATE HIGH
YIELD

PORTFOLIO CHARACTERISTICS

Total Return approach

SUMMARY (25.01.21)

	DPAM	LEXFTREU
AuM	441	
YTW	2.75	2.65
OAD	3.75	3.35
BLOOMBERG COMPOSITE RATING	BB-	BB-



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EUR CORPORATE
HIGH YIELD

PORTFOLIO
CONSTRUCTION

*Actively Managed with a
multi-dimensional approach*

1. CURRENT RISK LEVEL (25.01.21)

OAD		OAS	
Portfolio OAD	Benchmark OAD	Portfolio OAS	Benchmark OAS
3.75	3.35	304	299



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1. CURRENT RISK LEVEL (25.01.21)

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2. LOOK FROM DIFFERENT ANGLES

Subordination exposure on 25.01.21

	Market Value (%)			
	Total	Sr. Unsecured	Sr. Subordinated	Jr. Subordinated
Portfolio	100.00	86.97	0.81	12..22
Benchmark	100.00	87.71	0.79	11.51

↓
**PORTFOLIO SLIGHTLY MORE
EXPOSED TO CORPORATE
PERPETUALS**



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3. LOOK FROM DIFFERENT ANGLES

Rating exposure on 25.01.21

	Portfolio	Benchmark	Difference
Cash	4.71%	0.00%	4.71%
BB+	23.35%	30.37%	-7.26%
BB	15.82%	17.07%	-1.25%
BB-	14.09%	17.30%	-3.21%
B+	5.26%	7.07%	-1.81%
B	15.89%	13.19%	2.70%
B-	7.66%	5.77%	1.90%
CCC+	12.85%	6.42%	6.43%
CCC	0.31%	1.24%	-0.93%
CCC-	0.06%	0.77%	-0.71%
CC	0.00%	0.81%	-0.81%



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4. LOOK FROM DIFFERENT ANGLES

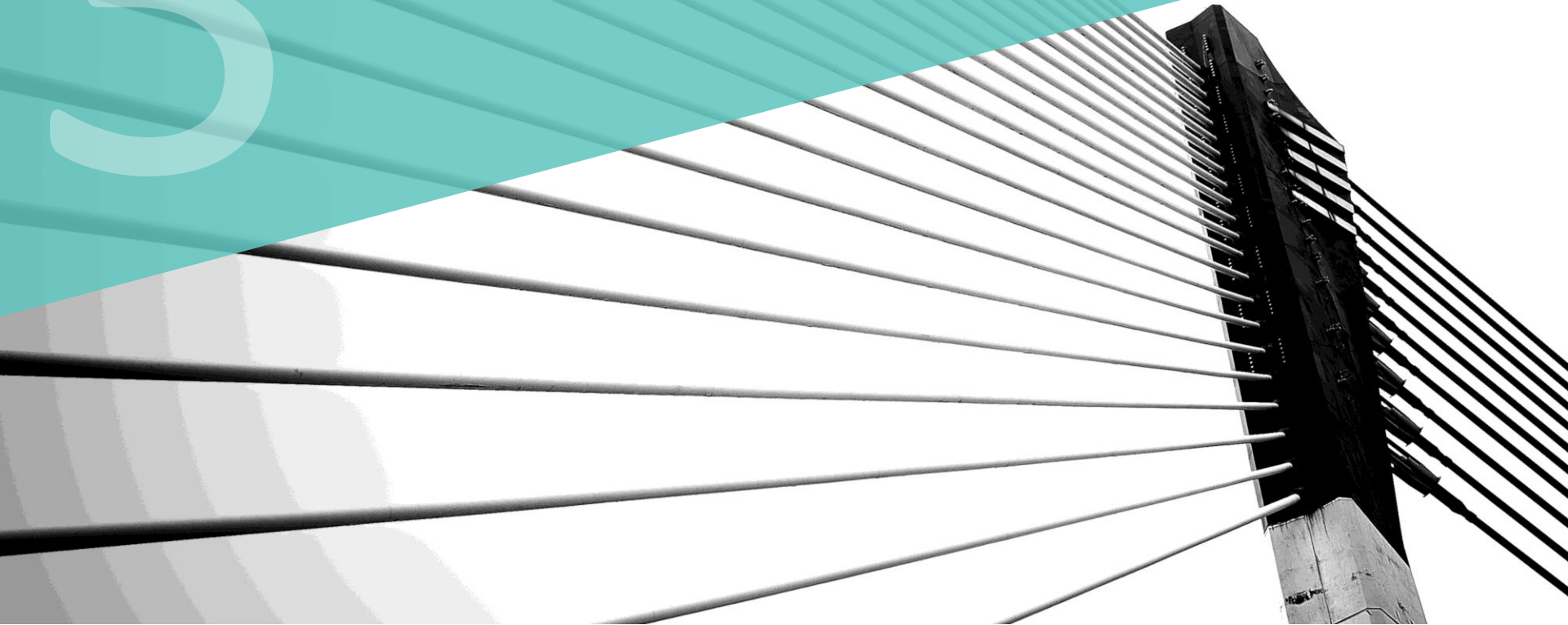
Sector exposure on 25.01.21

	Portfolio	Benchmark	Difference
	Market Value (%)	Market Value (%)	
Basic Industry	10.01	8.03	1.98
Capital Goods	14.03	13.02	1.01
Cash	4.71	0.00	4.71
Communications	28.65	24.29	4.36
Consumer Cyclical	23.46	27.34	-3.88
Consumer Non-Cyclical	11.42	9.99	1.43
Electric	0.52	1.94	-1.42
Energy	0.77	1.92	-1.15
Natural Gas	0.00	0.52	-0.52
Other Industrial	0.74	2.66	-1.92
Other Utility		0.66	-0.66
Technology	0.76	3.39	-2.63
Transportation	4.93	6.24	-1.31
Total	100	100	



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Q&A / APPENDIX



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