United Sustainable Series – Global Credits Fund

As at 30 June 2022

Performance Update

For the month of June, the Fund MYRH class registered a return of -3.10%.

The fund underperformed the index over the quarter. At the end of the first quarter the beta position of the fund was increased to just above 1. The slight overweight in beta detracted as spreads had widened over the quarter. The long position in European swap spreads was a small positive contributor. The key performance detractor was our overweight in European credits and underweight in US credit markets. Since the start of Russia's war in Ukraine, European credits started to underperform US credit markets as a result of recession fears and worries about energy disruptions in the second half of the year. European banks in particular traded very weakly in the second quarter.

Market Outlook

Valuations for investment grade credit are starting to look attractive

By all standards, we have seen a very significant repricing of fixed income. European government bonds posted their worst quarter in decades and on top of that, credit spreads widened. Correlations in rates and risk markets have clearly been positive in this regime of financial tightening, taking away the benefits of diversification. The world looks grim and it would be easy to extrapolate a bear market from the circumstance. If history since 1955 is any guide, we would have to conclude, as Larry Summers and Alex Domash first pointed out, that from current levels of inflation and labor market overheating, Fed tightening has always resulted in a recession. But panic and volatility can also provide opportunities.

Spreads on all segments of the credit market are now undoubtedly above median spreads. Euro investment grade and Euro high yield have even reached top quartile. Could spreads go wider in a full-blown recession scenario? Yes, they could. Should we run full underweight positions until we see those highs? No, we don't believe that would be a prudent move.

Even though we acknowledge that recession risks are elevated, there is no 100% certainty that this scenario will play out. Given that markets are rapidly repricing, it would be sensible to start buying some credit risk now and we are aiming for a portfolio beta that is just above one.

Corporate profit margins are at cyclical highs, which is not uncommon on the eve of an economic slowdown. Corporates enjoyed strong pricing power in 2020 and 2021, with supply constraints and government support helping to lift margins. One important element to judge corporate health is to look at companies' interest rate sensitivity. This is a function of total debt to capital and of the maturity profile. Investment grade companies look fairly healthy on this metric since most of them have locked in low coupons for an extended period, but there are exceptions, such as real estate and retail, that are vulnerable within the investment grade universe.

During Covid, a substantial amount of SME credit risk was shifted from bank balance sheets to government entities via the use of state-backed loans. This means that when defaults increase, banks are partly shielded as some losses will end up at the government's feet. We conclude that healthy capital positions and probably lower credit losses compared to earlier episodes of economic stress should help banks to weather the storm. We feel comfortable saying that banks will not be the epicenter of stress in the next recession.

Portfolio Positioning

Maintain modest beta overweight and preference for European financials

We maintained our beta around 1.1 during the quarter. The fund also continues to hold a long position in euro swap spreads which we expect to tighten over the coming quarters. The fund remains overweight in banking, insurance and technology sectors. We continue to see value in European financials as we believe the European banking sector is more resilient than it gets credit for. And, banks are shielded to a certain extent by state-backed lending programs for SMEs that were instituted during the Covid crisis. The insurance sector is relatively cheap compared to banking. In addition, regulatory treatment of subordinated debt in the sector is more favorable. We are more cautious on European corporates that have a relatively higher exposure to the risk of an energy shortage in the region. We also hold an overweight in the technology sector, with Oracle and Western Digital among the largest positions in this sector.

We have reduced the corporate exposure in emerging markets as this part of the market has performed well. Names that we sold were Itau Unibanco, Rumo, Suzano, Kasikorn Bank and Braskem. We added in names that were trading relatively cheaply, such as Netflix and the US industrial company Ashtead. Other names that we added were financials Erste Group, SEB and BNP.

The exposure to developed market high yield was slightly reduced to 13% as we lessened our exposure in Australian Fortescue Metals Group and United Rentals. We added to Autostrada bonds, which had underperformed due to the widening of Italian government spreads. We expect the company to be upgraded to investment grade after the new owners confirm their financial strategy. We also added to our position in Volkswagen hybrids, as these bonds had widened significantly on increased fears of a European recession. We don’t believe these hybrids carry significant call risk.

Volkswagen makes a positive contribution to SDG 11 (Sustainable cities and communities) and SDG 13 (Climate action) as the company has been heavily investing in the development and sale of electric cars, and its revenue from the sale of electric vehicles has increased substantially.

The fund has an underweight risk position in the USD markets and an overweight in Euro credits. The overweight in Euro credits is mostly a result from our preference for European financials. The underweight and overweight positions are to a large extent driven by bottom-up issuer selection and relative value within debt structures. All currency exposure is hedged back to Bloomberg Aggregate Corporate Index.

Our top 10 holdings include primarily financials and technology names, such as Raiffeisen, Banco de Sabadell, Deutsche Bank, BBVA, Oracle and Western Digital.

Bond Commentary

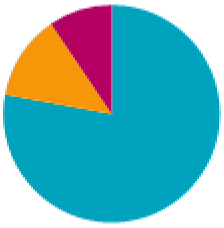
Bond	Country	Sector	Remarks
Oracle	United States	Technology	• Oracle Corporation is an American multinational computer technology corporation headquartered in Austin, Texas. • In 2020, Oracle was the third-largest software company in the world by revenue and market capitalization. • The company sells database software and technology (particularly its own brands), cloud engineered systems, and enterprise software products, such as enterprise resource planning (ERP) software, human capital management (HCM) software, customer relationship management (CRM) software (also known as customer experience), enterprise performance management (EPM) software, and supply chain management (SCM) software • We hold an overweight in the technology sector with Oracle being among the largest positions in this sector. • Oracle long bonds performed well. In general, long bonds tend to outperform in a declining market. • Oracle is in the fund's Top 10 holdings.
Australian Fortescue Metals Group	Australia	Industrials	• Fortescue Metals Group is the world's fourth-largest iron ore miner, with all its mining activities based in Australia. • The company supplies its material almost solely to China for its construction and infrastructure needs and is not involved in coal mining. • The company therefore makes a positive contribution to SDG 9 (industry, innovation and infrastructure) and SDG 11 (sustainable cities and communities). • Through their subsidiary Fortescue Future Industries, the company also invests in solar, wind and green hydrogen energy projects, which is very constructive and promising from a sustainability point of view. • Exposure to developed market high yield has been reduced, we have exited our positions in Australian Fortescue Metals Group

Fund Classes

Fund Classes					
MYR Hedged Class	USD Class	AUD Hedged Class	SGD Hedged Class	RMB Hedged Class	GBP Hedged Class

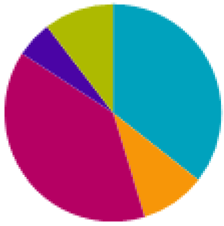
Positioning by Segment and Region

Segment (Absolute weight)



Investment Grade	78%
High Yield	13%
Emerging Market	9%

Region (Absolute weight)



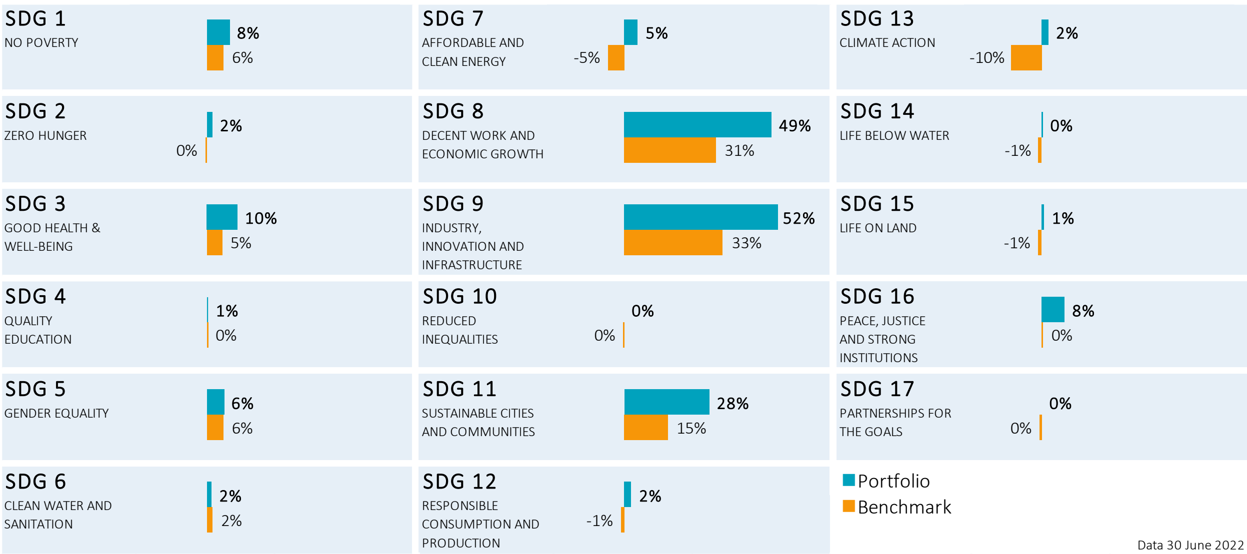
Europe ex-UK	32%
United Kingdom	9%
North America	36%
Other Developed	5%
Emerging	9%

Source: Robeco. RobecoSAM Global SDG Credits. Data end of June 2022

Sustainability

Contribution to the United Nations Sustainable Development Goals (SDGs)

The portfolio makes a high contribution to SDG 3 (Health & wellbeing), SDG 8 (Decent work & economic growth), SDG 9 (Industry, innovation & infrastructure) and SDG 11 (Sustainable cities & communities). This is a result of exposure to the Banking, Insurance, Telecom and Healthcare sectors.



Source: Robeco. Net figures for individual SDGs.
Portfolio: RobecoSAM Global SDG Credits. Benchmark: Bloomberg Global Aggregate Corporate.

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