

Strategic Credit: Times have changed in credit markets, should your approach?

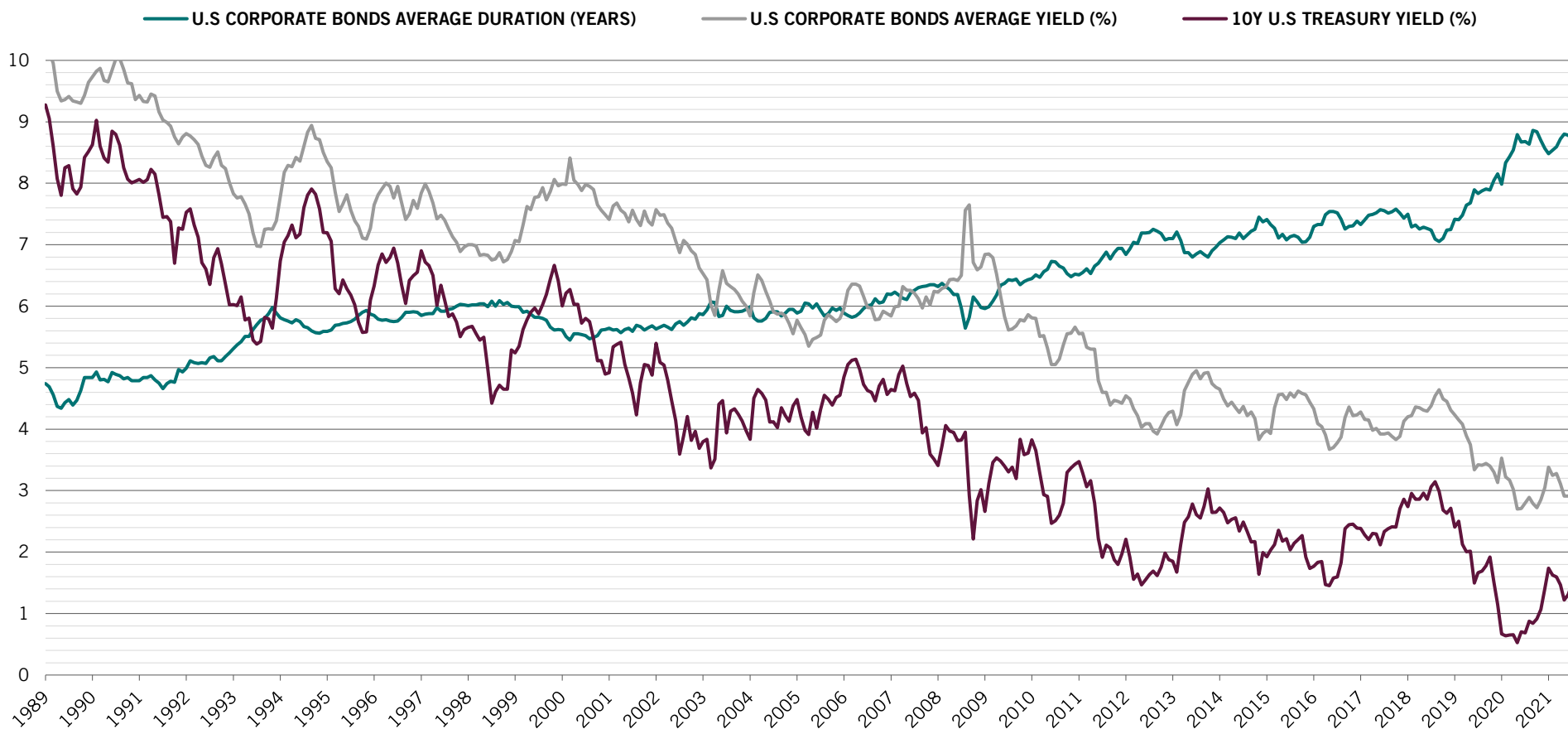
JON MAWBY

16th February 2022
capitalmarket.events



Market Review

MORE RISK BUT FOR LESS RETURN – A NEW REALITY?



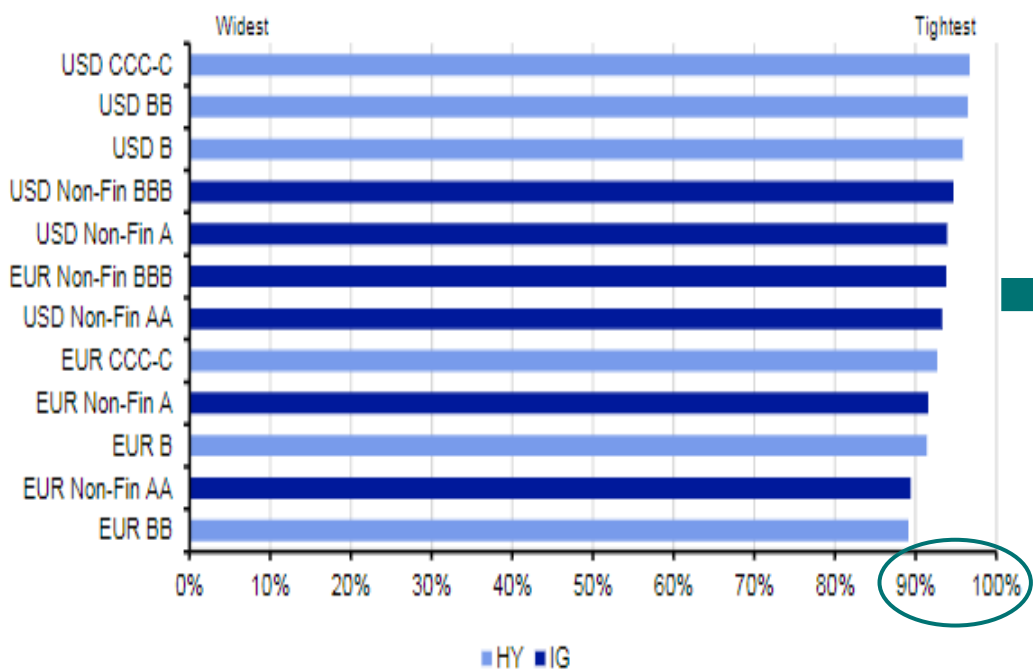
- Future fixed income risk return characteristics **will not look like the past 30-40 years**
- **Yields have fallen** ever lower while interest rate **duration has continued to rise** (see chart)
- A corporate bond yielding 0.4% is **not the same safe haven** it was at 4%
- **With less margin for error, traditional credit is delivering investors higher correlations to equity risk.**

Duration: Bloomberg Barclays US Agg Corporate Statistics Modified Adjusted Duration
 Corporate Yield: Moody's Bond Indices Corporate Avg Yield
 31.03.1989 – 31.12.2021

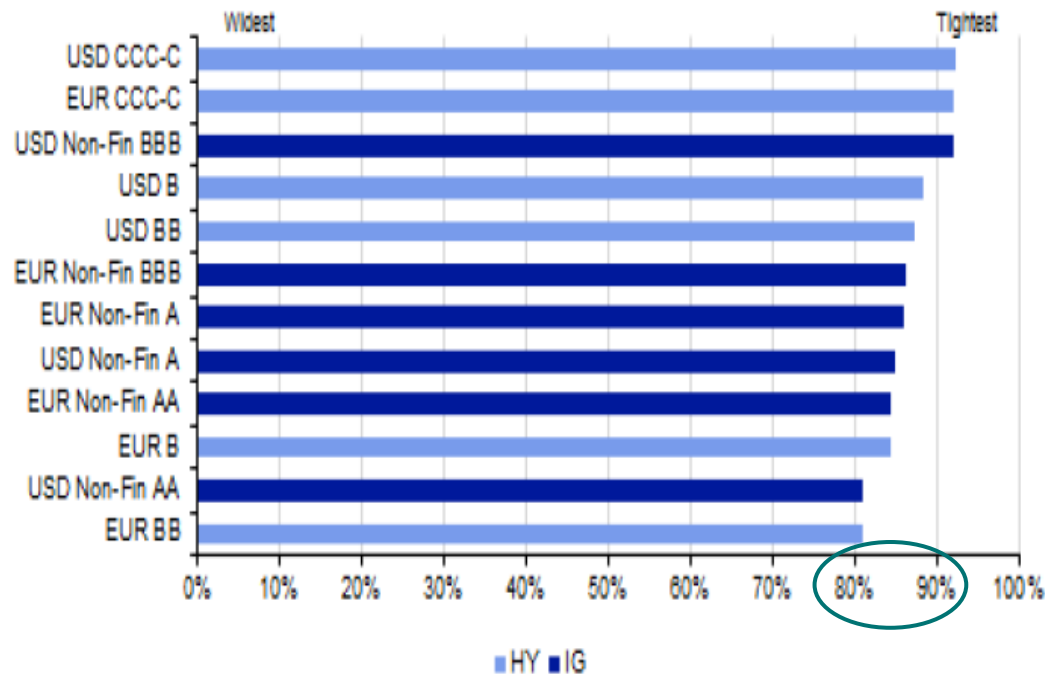


INDEX YIELDS TODAY VERY CLOSE TO ALL-TIME LOWS DESPITE RECENT MOVES

31st October 2021



31st January 2022

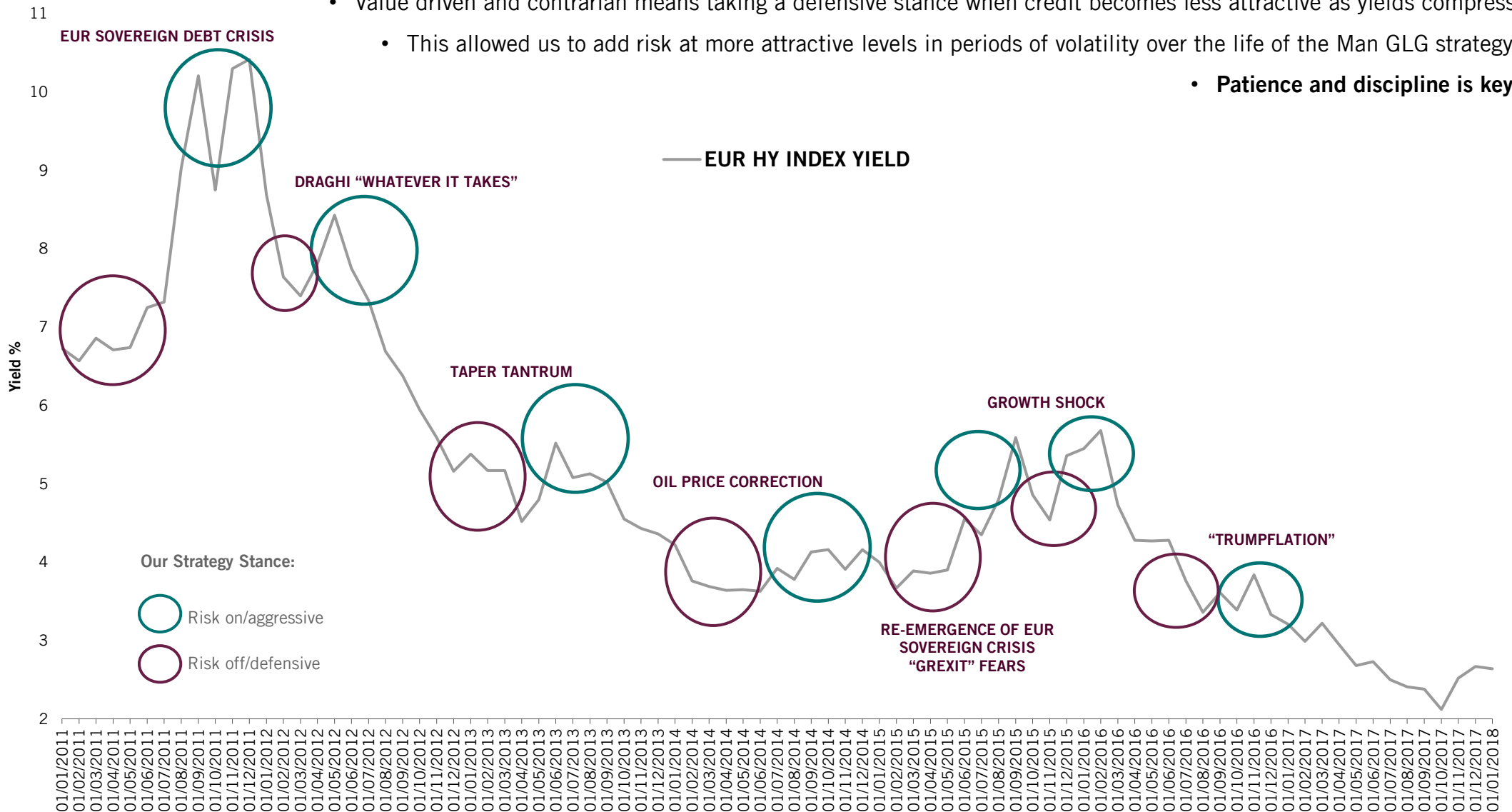




BUY HIGH, SELL LOW

Generating attractive forward looking returns in a low-yielding environment

- Value driven and contrarian means taking a defensive stance when credit becomes less attractive as yields compress
- This allowed us to add risk at more attractive levels in periods of volatility over the life of the Man GLG strategy
- **Patience and discipline is key**





Investment Outlook

MARKET OUTLOOK: THREATS

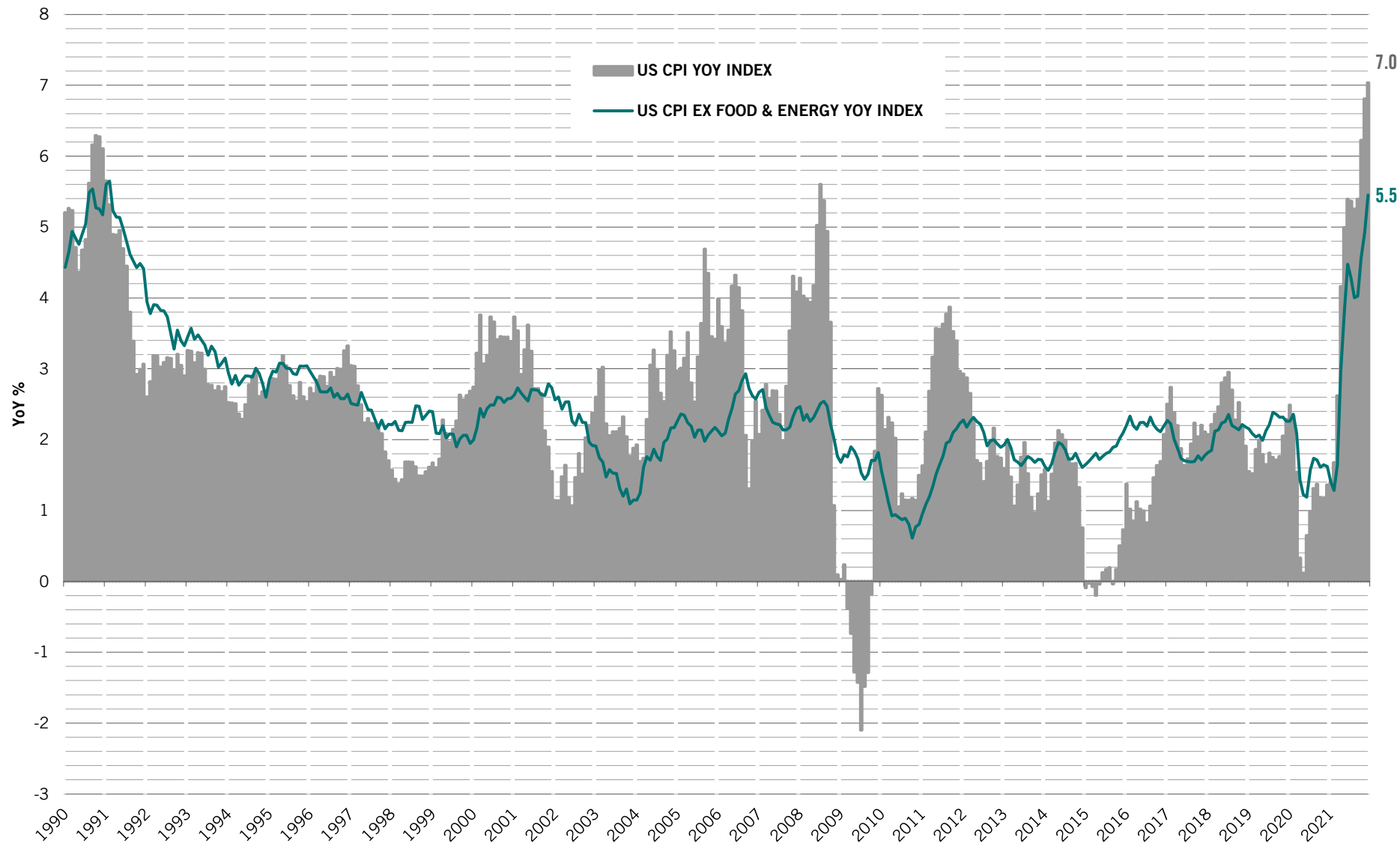
Theme	Rationale/Driver	Credit Selection Detail
China Slowdown	<i>Slowdown in China is not priced in and will impact certain sectors harder.</i>	<p>Autos: BMW, Daimler</p> <p>Banks: Standard Chartered, HSBC</p> <p>Commodities: Glencore (general China contagion trading tight) Anglo American, Teck Resources</p> <p>Luxury goods: Kering</p>
Inflation	<i>Inflation pressures impact on credit markets and bottom up margin pressures for issuers</i>	<p>Duration: Positioning actively managed ability to be defensive given historically low yields and high interest rate volatility</p> <p>Convertible Bonds: Equity option can perform in inflationary scenarios</p> <p>Margin pressures: Boparan</p>





THREAT: INFLATION

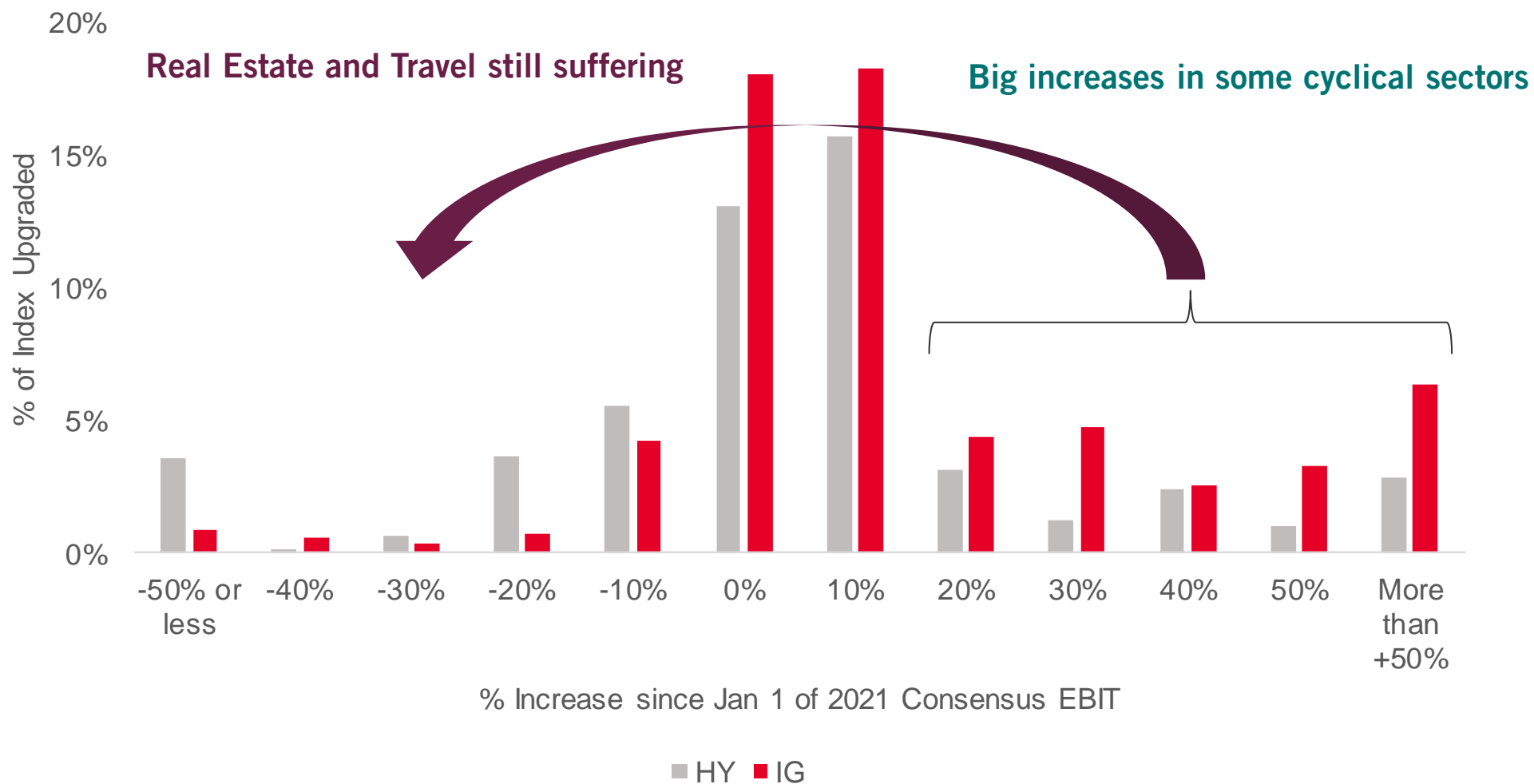
US Core & Headline CPI at levels not seen since 1990





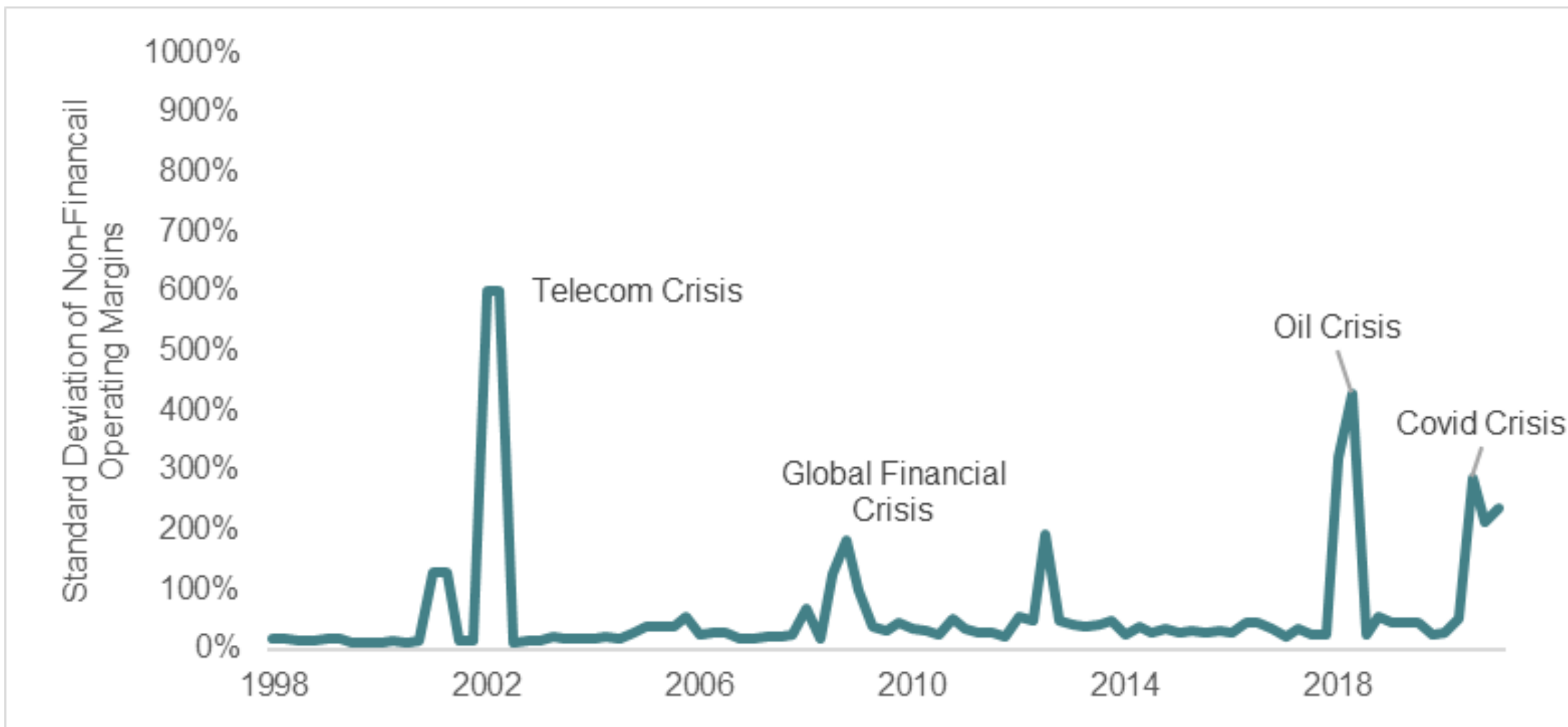
THREAT: INFLATION

After rising on revenue, **earnings may fall on costs**



THREAT: INFLATION

When profit margins diverge, credit spreads widen....**profit margin dispersion = credit crisis**



Which sectors look vulnerable?

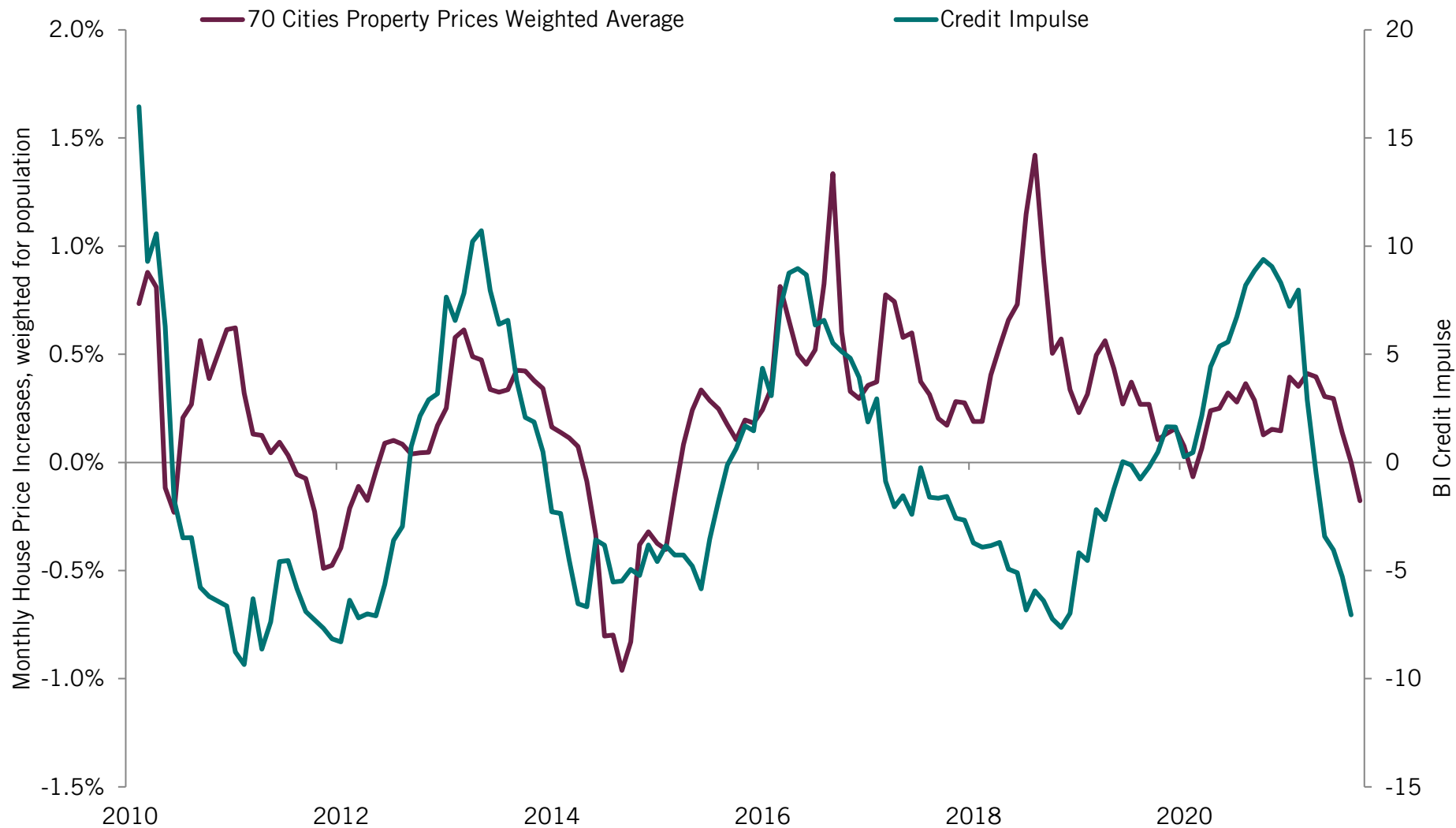
	Current Spread	Peak since 2020	Trough Since 2020	% of Range
Corporates	103bp	261bp	95bp	5%
Autos	105bp	389bp	97bp	3%
Retail	95bp	252bp	81bp	8%
Industrial	90bp	239bp	83bp	4%
Real Estate	130bp	305bp	110bp	10%
Oil & Gas	120bp	249bp	83bp	22%
Telcos	105bp	226bp	97bp	6%
Utilities	102bp	211bp	88bp	11%
Corp. Hybrids	182bp	504bp	160bp	6%
Banks Snr Pref	73bp	217bp	64bp	6%
Banks Snr NonPref	100bp	329bp	91bp	4%
Banks LT2	87bp	428bp	61bp	7%
Banks AT1 CoCos	387bp	1515bp	331bp	5%
Insurance Snr	82bp	256bp	77bp	2%
Insurance Sub	176bp	517bp	158bp	5%

Sources: Markit, SG Cross-Asset Research/Credit



THREAT: CHINA

China will be a significant problem as property prices fall



MARKET OUTLOOK: OPPORTUNITIES

Theme	Rationale/Driver	Credit Selection Detail
Rising Stars	<i>Rising stars from HY to IG. Strategic allocation</i>	Netflix Lufthansa Mattel T-Mobile (5g) Warner Music – same story as Netflix but on the music side
Improving ESG	<i>We believe in ESG in credit. Direction of travel, weight of capital and cost of funding related.</i>	Worley RWE
Corporate Hybrids	<i>Strategic allocation. Preference for short-call corporate hybrids.</i>	Vodafone Total Adecco
AT1s	<i>High coupon high resets that will be refinanced</i>	UBS Unicredit Credit Agricole

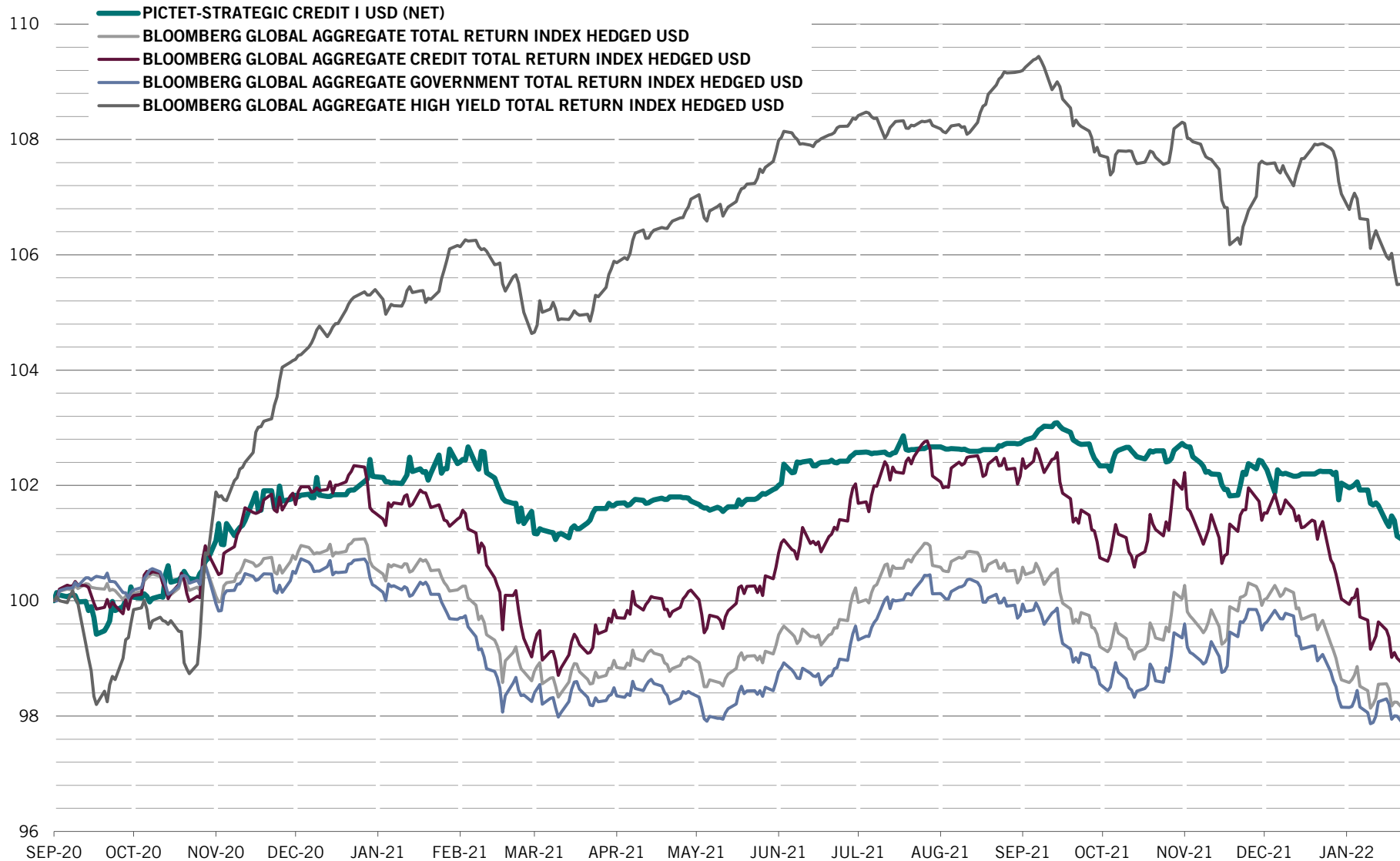


Performance and positioning



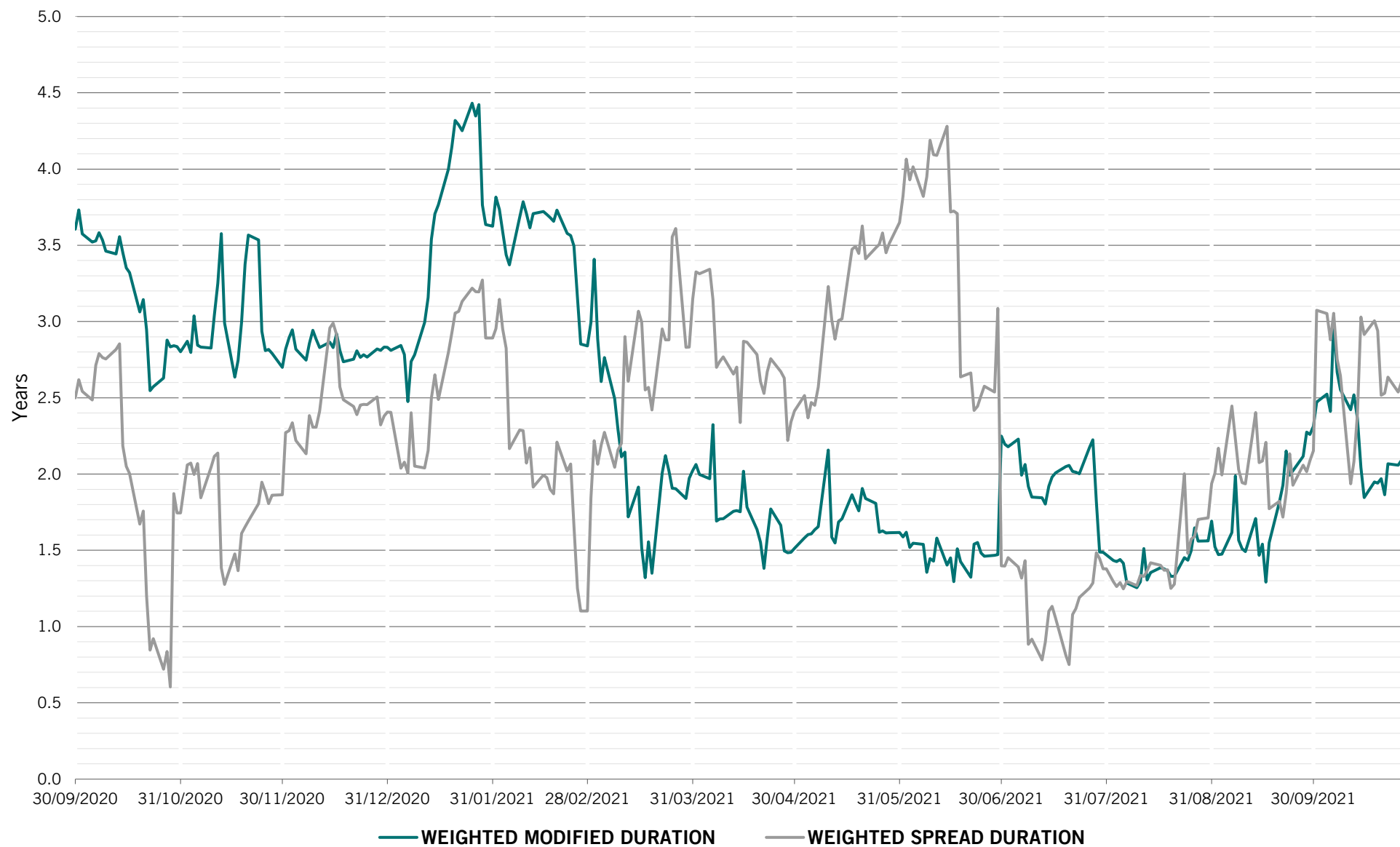
PERFORMANCE SINCE INCEPTION

- The fund is performing exactly as expected at this point in the cycle
- While **HY index has outperformed**, it is worth recalling that investors suffered a **-21.4% drawdown in March 2020**





INTEREST RATE AND CREDIT DURATION ACTIVELY MANAGED



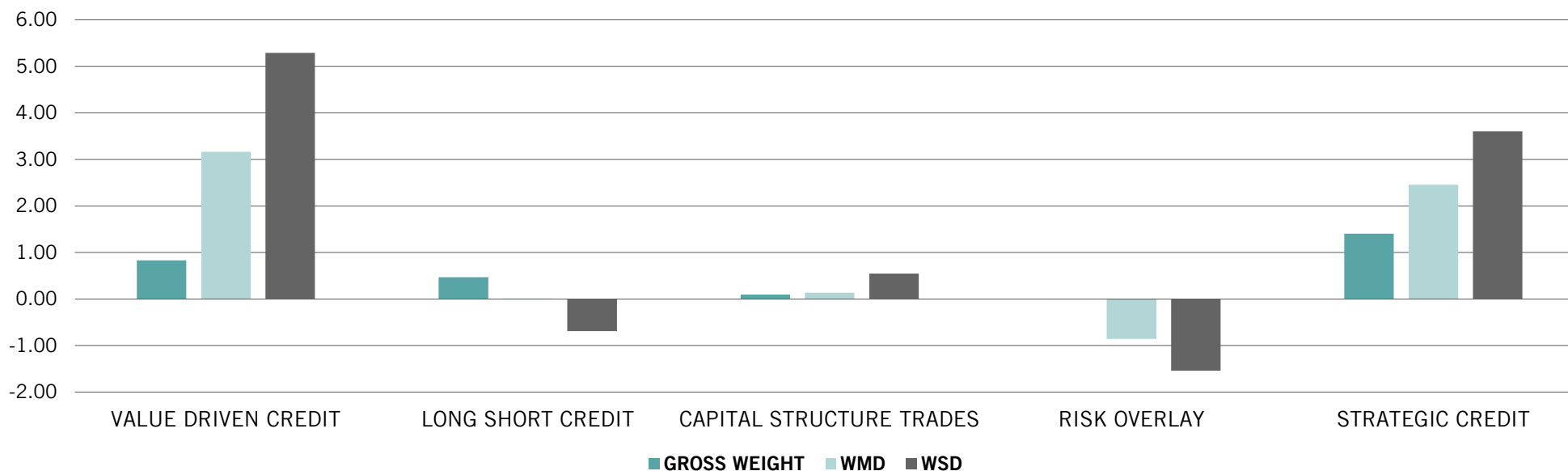
Source: Pictet Asset Management, 30.09.2020 – 29.10.2021



FINAL PORTFOLIO: FUND SNAPSHOT AS OF 31.01.2022

At a glance (as of 31.01.2022)

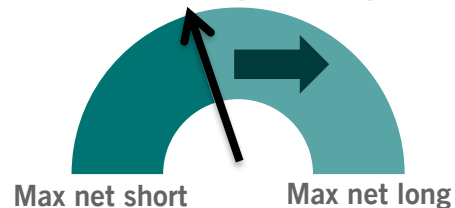
Fund AuM	USD 870m	BB exposure	59.1%
FX exposure	100% USD	Single-B exposure	2.4%
Long / Short notional exposure	109% / -32%	AT1 exposure	6.1%
Cash Level	7.3%	Corporate hybrids exposure	11.0%
Portfolio Yield (USD Yield)	2.2%	EM Corporate exposure	2.0%
Portfolio modified duration	2.5y	EM Sovereign exposure	0.0%
Portfolio spread duration	3.6y	Convertibles exposure	4.5%



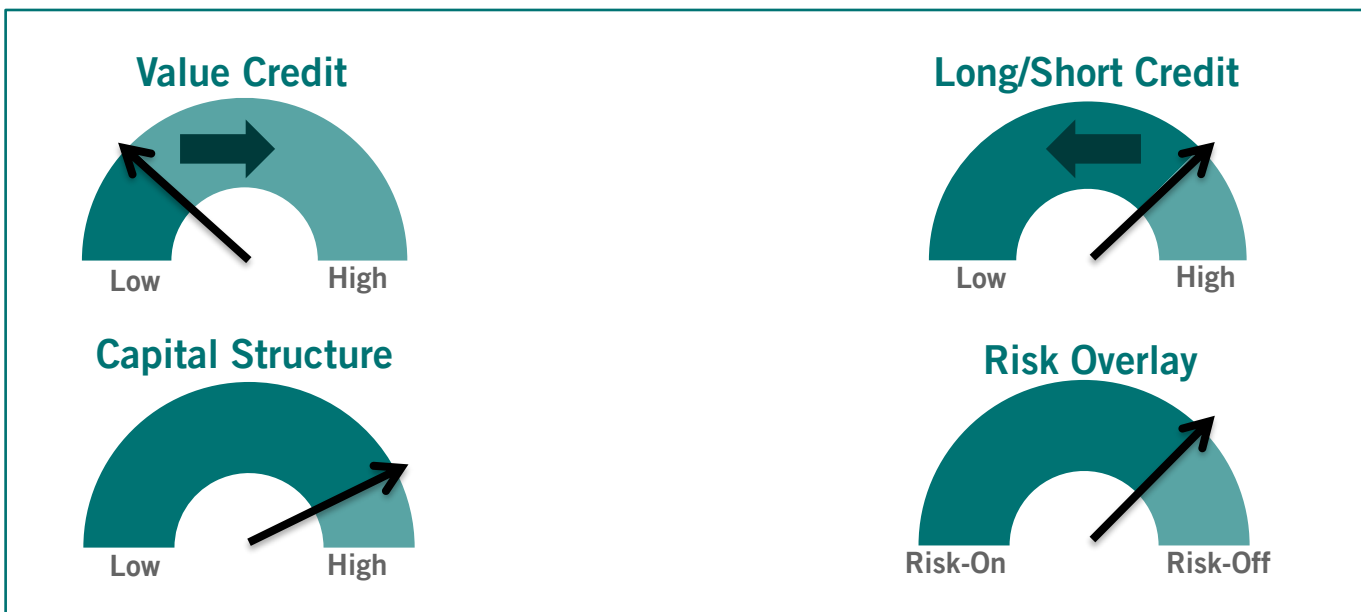
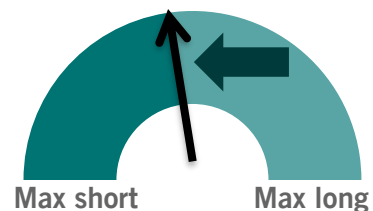
Source: Pictet Asset Management, 31.01.2022
WMD: Weighted Modified Duration
WSD: Weighted Spread Duration

FUND DASHBOARD – STRATEGY ALLOCATION

Credit Risk (CS100)*



Interest Rate Risk



Source: Pictet Asset Management, 31.01.2022. For illustrative purposes only. Portfolio allocation is not comprehensive but rather a snapshot of key themes/trades.
 *Credit spread risk, measured as the sensitivity of the portfolio to an absolute 100bps move wider in credit spreads.

CONCLUSIONS

We are watching:

The data: inflation breakevens, economies re-opening, economic growth, monetary/fiscal policies, corporate margin pressures, China etc.

Our convictions:

The importance of a nimble and flexible mindset remains at the forefront of our thinking for 2022

Critical to stick to a value driven and contrarian mindset

Patience and discipline has never been never more important



Appendix

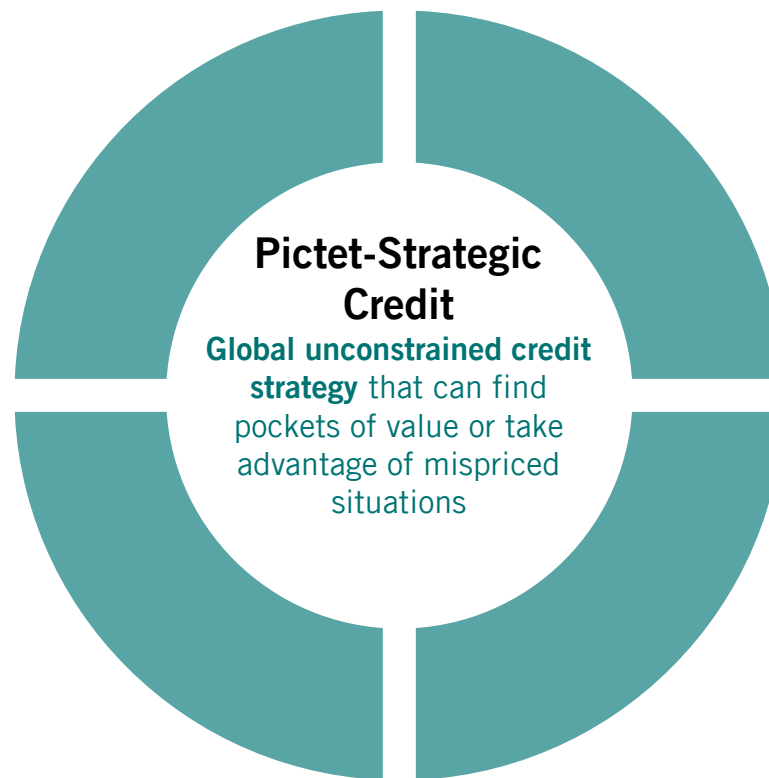
PICTET STRATEGIC CREDIT

OPPORTUNITY

- › Unconstrained, opportunistic, style-agnostic, credit strategy
- › Ideally positioned to navigate an environment where corporate leverage is at an all-time high, and credit investors face combination of inflationary/ deflationary forces

STRUCTURE

- › UCITS IV compliant with daily liquidity
- › Strategy capacity: USD 5bn
- › Minimum 51% in global credit. Typically 85% of invested NAV in global credit



OBJECTIVE

- › **Return:** Target return of 5% per annum net of fees with low volatility over a rolling 3-5 year period*
- › **Diversification:** Low correlation to traditional beta asset classes
- › **Duration:** Active interest rate management -3 to +8 years

INVESTMENT TEAM

- › Experienced investment team dedicated to the strategy and supported by Pictet AM's global resources

These are internal guidelines only which are subject to change at any time without prior notice. For complete investment rules and limits, please refer to the fund's Prospectus
*This objective is based on the achievement of market assumptions approved by the management company of the fund. This target return does not in any way constitute a promise of future returns.

PICTET – STRATEGIC CREDIT DETAIL

Profile

Unconstrained global credit focused fund with a long bias, focus on providing risk diversification, reducing downside losses and a low correlation to traditional 'beta' via active asset allocation across credit and active interest rate risk management

Launch date

9 September 2020

Legal structure

Pictet umbrella. Daily dealing.

Base currency

USD (fully FX hedged)

Risk/Return Profile

- Performance: Target return of 5% per annum net over a rolling 3-5 year period*
- Yield target: >80% of the underlying yield. Historic average 4.4%
- Volatility: up to 5%. Sharpe ratio: >1

Capacity

c.USD5bn

Characteristics

Investment universe	Global credit including investment grade, high yield, FRNs and emerging markets
Flexibility to use	Cash, global sovereigns (CDS and developed market cash), derivatives (largely used for risk mitigation via interest rate and equity futures and CDS. Equity, Rates and Credit options used as needed but not core)
Duration	Interest rate risk is typically hedged using government bond futures and/or interest rate swaps. Managed typically with in a 0-5 year band. Parameters -3yrs/+8yrs
Rating	Flexibility to manage across rating spectrum with the exception of no CCC exposure, minimum rating of B-
No. of positions	Total positions (50-350) dictated by opportunity set
Sector	Unconstrained – indicative sector limits c. 25% for corporates and EM corporates, 55% for financials (30% AT1). Typically no emerging market sovereign debt
Geography	Unconstrained
Concentration	Minimum 51% in global credit. Typically 85% of invested NAV in global credit. High conviction positions 3-5% scaled on an ex-ante Sharpe assumption with a strong focus on overall fund diversification benefit. Around 25% of NAV in top 10 positions
Gross exposure	Typically 250-350% (up to 500%)
Long positions	50-150%
Short positions	75-200% (encompassing all instruments primarily associated with hedging currency, duration, credit and beta risk management)

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*This objective is based on the achievement of market assumptions approved by the management company of the fund. This target return does not in any way constitute a promise of future returns.



FUND TERMS

Management Company:	Pictet Asset Management (Europe) S.A.
Compartment name:	Pictet – Strategic Credit
Launch date:	9 September 2020
Reference currency:	USD
Legal status:	Compartment of a Luxembourg SICAV – UCITS compliant
Administrative & Paying Agent:	FundPartner Solutions (Europe) S.A.
Depository Bank:	Pictet & Cie (Europe) S.A.
Trade date (T):	Daily
Cut-off:	T at 15.00 CET
Settlement date:	T+3
Investment horizon:	The Compartment may not be appropriate for investors who plan to withdraw their money within 3 years
Reference index:	ICE BofA SOFR Overnight Rate Index (USD classes). Used for performance measurement.

Share classes available

Class	ISIN	Effective Annual Management Fee	Ongoing Charge Figure
I USD ¹	LU2195489823	0.35%	0.51%
I GBP ¹	LU2217310429	0.35%	0.51%
I dy USD ¹	LU2195490086	0.35%	0.51%
HI CHF ¹	LU2195490326	0.35%	0.56%
HI EUR ¹	LU2195490243	0.35%	0.56%
HI GBP ¹	LU2195490599	0.35%	0.56%
P USD	LU2195490755	0.70%	0.86%
HP EUR	LU2195490839	0.70%	0.91%
HP CHF	LU2195490912	0.70%	0.91%

¹ Minimum initial investment: USD 1,000,000 or equivalent converted to CHF/JPY/EUR/GBP on Trade date.

Source: Pictet Asset Management; effective fees as of 01.10.2020. These fees may evolve over time, but no more than the maximum stated in the prospectus. Please refer to the Fund's prospectus for full details.

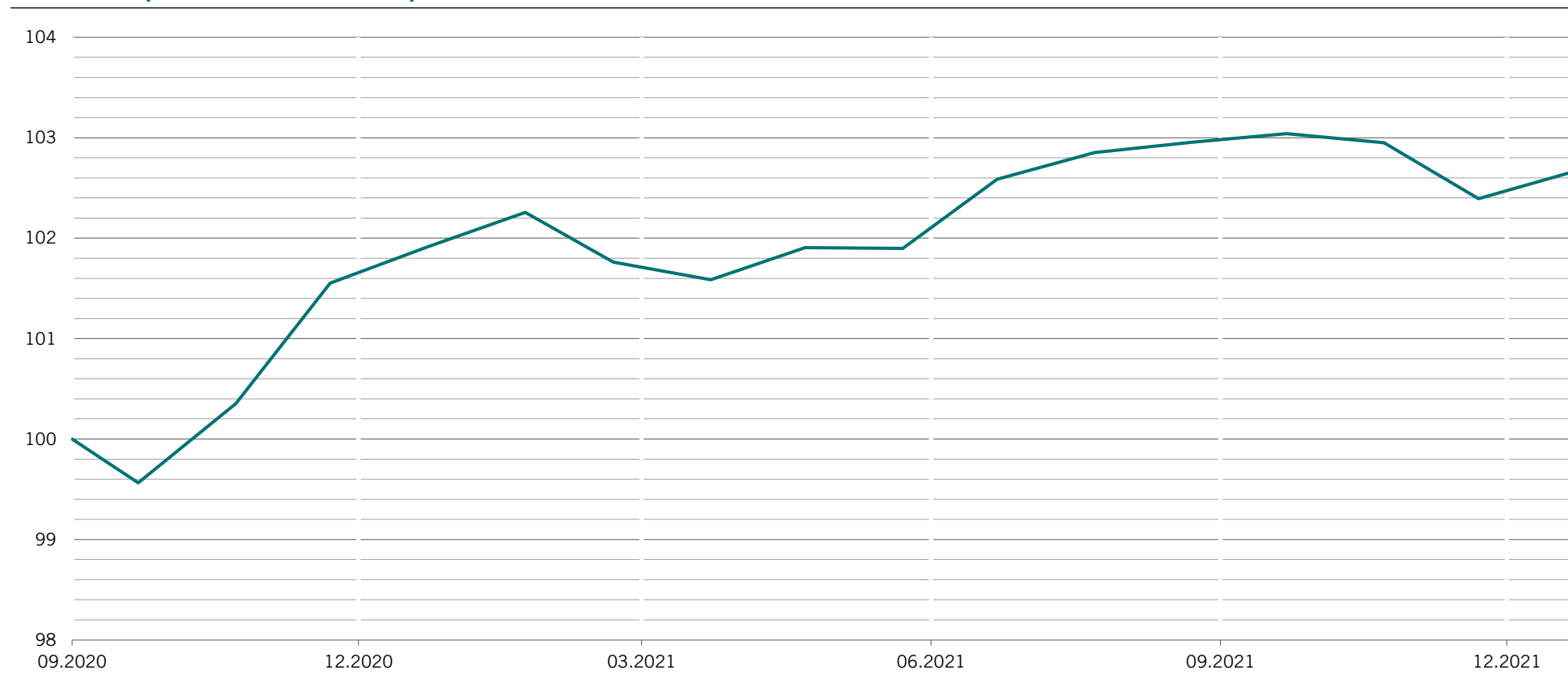


MONTHLY PERFORMANCE

Monthly performance (in USD gross of fees %)

%	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2021	0.34	-0.48	-0.17	0.31	-0.01	0.67	0.26	0.10	0.08	-0.08	-0.55	0.27	0.74
2020									-0.44	0.79	1.20	0.35	1.91¹

Cumulative performance since inception*



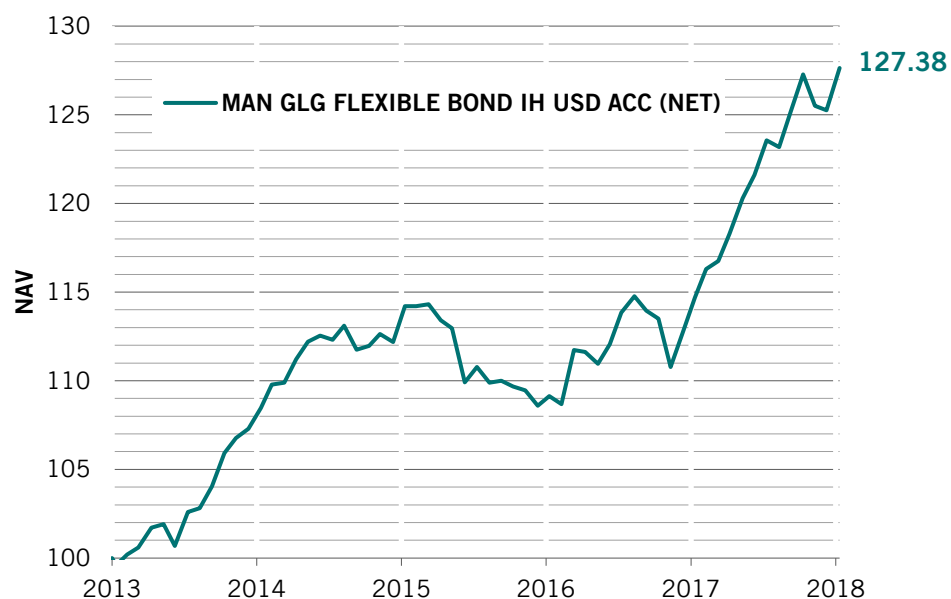
¹Partial year.

*The fund performance is composed of actual gross returns from 09.09.2020 to 31.12.2021 (since inception to present). Past performance is not a reliable guide to future performance. The value of investments and the income from them may fluctuate and investors may not get back the full amount invested.

Source: Pictet Asset Management, 31.12.2021

STRATEGY PERFORMANCE: FOR ILLUSTRATIVE PURPOSES ONLY

Portfolio manager track record¹



Key performance statistics (21.01.2013 – 31.01.2018)¹

YEARS [^]	MAN GLG FLEXIBLE BOND FUND, % RETURN	MAN GLG FLEXIBLE BOND FUND, % RETURN	LIPPER GLOBAL BOND, % RETURN	QUARTILE	
2018 YTD	+1.90	2018 YTD	+1.9	-0.4	1
2017	+11.01	1 YTD	+11.1	+2.3	1
2016	+3.68	2 YTD	+16.7	+5.1	1
2015	-3.15	3 YTD	+11.6	+3.3	1
2014	+4.51	4 YTD	+17.5	+10.4	1
2013	+7.31	5 YTD	+27.9	+13.6	1
Total return (net of fees)	+27.38	Since inception	+27.4	+13.4	1
Annualised return (net of fees)	+4.92				
Annualised volatility	+3.75				
Sharpe Ratio	1.16				

Correlations: 21 January 2013 – 31 January 2018

	MAN GLG FLEX BOND-IH USD ACC	GLOBAL EQUITIES: (MSCI WORLD NET TOTAL RETURN USD INDEX)	GLOBAL HY: (BAML GLOBAL HY INDEX)	GLOBAL CORPORATE DEBT (BAML GLOBAL CORPORATE INDEX)	GLOBAL GOVERNMENT DEBT (BAML GLOBAL GOVERNMENT)
MAN GLG FLEX BOND-CLASS IH USD ACC	1.00	0.21	0.43	0.38	0.18

1: Source: Bloomberg for performance data of the Man GLG Flexible Bond Fund Class IH USD Acc, Performance is calculated net of 0.60% management fee, no performance related fee is charged and income reinvested. Period shown is from inception of fund: 21 January 2013 to 31 January 2018 which is the period during which Jon Mawby co-managed this fund. Past performance of the Man GLG Flexible Bond Fund Class I H USD Acc is not indicative of the future performance of any existing or future fund managed by Pictet AM with a comparable investment approach; it is included for illustrative purposes only. Performance data does not include the commissions and fees charged at the time of subscribing for or redeeming shares. [^]Discrete annual returns (net of fees). Quartile Peer group ranking based on performance relative to Lipper Global Bond peer group. The indices mentioned above are not benchmarks as they are not representative of the Man GLG Fund's investment strategy. They should be used for comparison purpose only.

ESG IN FIXED INCOME AT PICTET ASSET MANAGEMENT

Pictet Asset Management has a longstanding commitment to responsible investment and integrate this at each stage of portfolio construction and idea generation

- We are convinced that Environmental, Social and Governance (ESG) considerations can help us make better long-term investment decisions for our clients
- Signatory of UN Principles for Responsible Investment (UNPRI) since 2007
- Launch of Global Sustainable Credit fund in January 2018

Investment Process*	Active Ownership	Exclusion Toolbox**	Risk Management
<ul style="list-style-type: none"> › Active consideration of a set of ESG factors and sustainability risks in investment analysis <ul style="list-style-type: none"> — We believe it can help avoid significant and often hidden areas of risk — Focus on good practices in corporate governance, environmental and social issues › ESG ratings and reports are embedded in our proprietary portfolio management system 	<ul style="list-style-type: none"> › Where appropriate we engage with corporate and sovereign issuers in order to positively influence ESG performance › Subscription to a third-party engagement service provider › Evaluate the severity of ESG concern(s) and the likelihood of successfully influencing the issuer 	<ul style="list-style-type: none"> › Controversial weapons and country exclusions as defined by Pictet Group Directives are systematically enforced in pre-trade checks 	<ul style="list-style-type: none"> › Investment risk team provides quantitative and qualitative information on portfolio ESG characteristics › Tailored-made alerts for significant ESG score changes

* The investment process integrates ESG factors based on proprietary and third-party research to evaluate investment risks and opportunities. Issuers with high sustainability risks and/or adverse impacts on society and the environment may be purchased and retained in the portfolio.

** Exclusions of long investments in controversial weapons and thermal coal extraction (subject to revenue thresholds) companies; controversial weapons refers to companies involved in the production of anti-personnel mines, cluster munitions, biological and chemical weapons (including white phosphorous) and nuclear weapons from countries not signatory to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) as defined from time to time by the Management Company.

DEVELOPED MARKET CREDIT INVESTMENT TEAM

HEAD OF DEVELOPED MARKET CREDIT

\$9.2bn AuM



FRÉDÉRIC SALMON
Experience since: 1993
At Pictet since: 2006

ANDREW WILMONT, CFA



Head of High Yield
Experience since: 1996
At Pictet since: 2018

PRASHANT AGARWAL, CFA



Senior Investment Manager
Experience since: 2000
At Pictet since: 2004

JON MAWBY, CFA¹



Head of Investment Grade
Experience since: 2000
At Pictet since: 2018

MATHIEU MAGNIN, CFA, FRM



Senior Investment Manager
Experience since: 2003
At Pictet since: 2003

CHARLES-ANTOINE BORY¹



Investment Manager
Experience since: 2014
At Pictet since: 2014

PHILIPP BUFF



Head of Credit Research
Experience since: 2006
At Pictet since: 2014
Automotive, Healthcare

GIOVANNI REICHENBACH
14 years | Media, Telecom

FRANÇOIS NICOLAS, CFA
14 years | Basic Industry, Energy

SILVIA ORTOLAN¹
14 years | Retail, Fin. Services

MURIEL CHABOT
11 years | Banking, Insurance

KARAN KHANGURA, CFA, CAIA¹
10 years | Leisure, Utility, Tech

JEFFREY BERRY
7 years | Banking, Insurance

ANNA MAGI
2 years | Consumer, Services

JOANNA MINSTER
Cap. Goods, Real Estate, Transport

NICOLAS MUSOLINO, PHD



Senior Quantitative Analyst
Experience since: 2007
At Pictet since: 2007

AUDREY LAURENCET, CFA



Client Portfolio Manager
Experience since: 2012
At Pictet since: 2014

MANESH MISTRY, CFA, CAIA



Client Portfolio Manager
Experience since: 2015
At Pictet since: 2015

WIDER INTERNAL RESOURCES

- TRADING
- FI STRATEGY
- MACRO RESEARCH
- ESG TEAM
- INVESTMENT RISK & PERFORMANCE
- FI & EQUITY RESEARCH TEAMS

Total Pictet AM fixed income AUM

\$83.5bn

70+ Investment Professionals

¹Based in London. Data as of 31.12.2021.

DEVELOPED MARKET CREDIT FUND RANGE

Fund	EUR Short Mid-Term Bonds	USD Short Mid-Term Bonds	EUR Short Term Corporate Bonds	EUR Corporate Bonds	Strategic Credit	Global Sustainable Credit	EUR Short Term High Yield	EUR High Yield	Global High Yield
Ref currency	EUR	USD	EUR	EUR	USD	USD	EUR	EUR	USD
Investments	EUR IG corporate and government bonds	USD IG corporate and government bonds	EUR IG corporate bonds	EUR IG corporate bonds	Global credit markets	Global IG and BB (crossover) corporate bonds	EUR HY corporate bonds	EUR HY corporate bonds	Developed Market HY corporate bonds
Style	Discretionary	Discretionary	Discretionary	Discretionary	Discretionary	Discretionary	Discretionary	Discretionary	<i>Systematic</i>
SFDR¹	Article 6	Article 6	Article 8	Article 8	Article 6	Article 9	Article 6	Article 6	Article 8
AuM (in millions)	EUR 363	USD 355	EUR 1,264	EUR 557	USD 890	USD 1,007	EUR 1,280	EUR 342	USD 261 ³
Benchmark	JPM EUR Gvt IG 1-3Y	JPM UST 1-3Y	Bloomberg Barclays Euro-Aggregate Corporate 1-3 Yrs A-BBB	Bloomberg-Barclays Euro-Aggregate Corporate	ICE BofA SOFR Overnight Rate Index (USD)	N/A ²	N/A ²	ICE BofA Euro High Yield Constrained	ICE BofA Developed Markets High Yield ESG Tilt
YTW	-0.37% (EUR)	0.76% (USD)	0.36% (EUR)	0.68% (EUR)	1.17% (USD)	2.13% (USD)	2.55% (EUR)	3.07% (EUR)	3.51% (USD) ⁴
Inception date	April 2003	Sep 2003	Nov 2013	Sep 2000	Sep 2020	Sep 2013 / Feb 2018 ⁵	Jan 2012	Sep 2001	Nov 2009 / Feb 2022 ⁵

¹Sustainable Finance Disclosure Regulation. These will be effective from 25th February 2022. Before this date, GSC was Article 8; all others Article 6

²Reference indices: Bloomberg Barclays Global Aggregate Corporate TR hedged in USD for GSC, ICE BofA Euro High Yield Ex Fins BB-B 1-3Y Constr (3%) for EUR STHY

³AuM of Pictet-US High Yield fund which is being repositioned to Pictet-Global High Yield fund on 25th February 2022

⁴YTW for the benchmark

⁵The fund's investment strategy changed to the extent that its record prior to the 2nd date is irrelevant to its new format

Focus

	Europe
	US
	Global DM

For further information, please visit our websites

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