

Monthly Portfolio Update

Amundi Funds II – Global Subordinated Bond*

31 May 2018

BOND

COMMENTARY

Market Overview

May was a volatile month across all asset classes.

Bond markets were shaken by the political turmoil in Italy and Spain, and, towards month-end by trade discussions in the U.S. The crisis in Italy was all but over in the final days of May, as a new government was agreed between the five stars movement and La Lega parties. In Spain the Prime Minister was faced with a vote of no-confidence at month end, which did little to reassure investors. In the U.S., President Donald Trump announced tariffs on steel (25%) and aluminium (10%) imports from the EU, Canada and Mexico with immediate effect, which also stirred the market. All three retaliated swiftly to the announcement, stating that they too would implement tariffs.

In the context of bond yields, the Italian 10-year yield rose markedly during the month (+100bps), as did the yield on Spanish Bonos which closed more than 20bps higher as compared to the previous month. “Safe-haven” assets including the German Bund benefited from the political noise. The BTP spread versus the Bund eased down to 240bps towards month end as the new government was agreed. U.S. Treasury yields plunged by the most they have done since Brexit, however they began to reverse following the trade tariff announcement by President Trump.

In general, the tone of May’s economic data was positive but mildly disappointing relative to expectations. U.S. releases indicated a slight deceleration of growth momentum as compared to previous months and in Europe inflation accelerated sharply.

Subordinated Debt Review

May started off calmly in European credit, but was hurt by rising volatility around mid-month. Markets widened significantly on the back of Italian political saga and, to a lesser degree, the situation in Spain. In the cash market, the correction materialized by a movement across all credit segments, with Italian issuers underperforming the most.

All in all, Euro Investment Grade (IG) spread widened by +26bps at 118bps in May (back to its level in April 2017) while iTraxx Main 5Y ended wider by +13 at 68bps. In terms of performance, Barclays Euro Aggregate Corporate finished down -1.41% in excess return vs. equivalent duration-matched Treasuries, but only -0.25% in total return thanks to duration as global safe-haven trade drove bond

yields down. Financials suffered the most during the month, particularly in Europe. At month end the Barclays Corporate Financials indices showed that European financials widened +33 bps as compared to +9bps of widening in the U.S. Volatility also hammered subordinated debt (Cocos widened by +78bps at 393bps and Corporate hybrids +45bps at 234bps over the month).

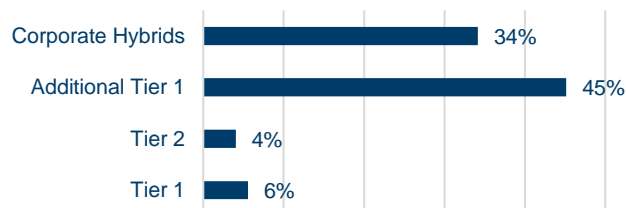
Portfolio Review

Performance & Positioning

The Portfolio had a negative performance in May. The best performers during the month were really a function of the beta which means short dated papers. The biggest detractors were Italian and Spanish bonds.

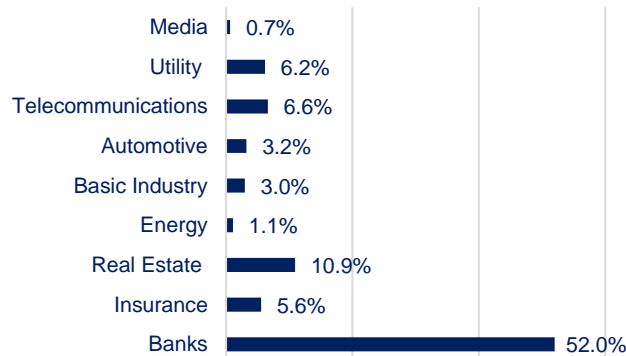
In terms of positioning, at the end of the month our duration position was 3.5 years and yield to maturity was 5%. The cash position was intentionally high at 12.25%. At this level, we believe that the Portfolio Manager has the flexibility to benefit from increased volatility in the credit markets.

Breakdown by Subordination Type (Ex-Cash)



Source: Amundi Asset Management as at end-May 2018

Breakdown by Sector (Ex-Cash)

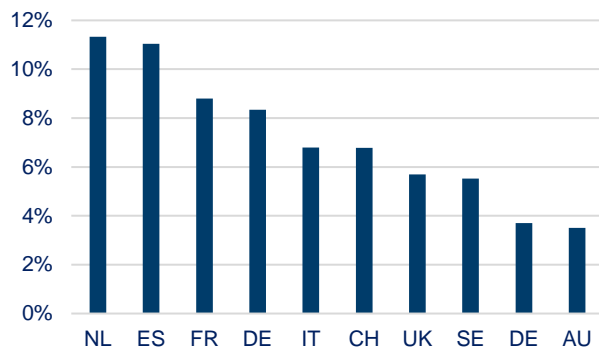


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*Prior to 16 February 2018, Pioneer Funds – Global Subordinated Bond

Source: Amundi Asset Management as at end-May 2018

Top 10 Countries (Ex-Cash)



Source: Amundi Asset Management as at end-May 2018

Outlook

Looking ahead, caution is still the key even if the market ended this month back at a more positive state of mind following the placement of Italian treasury debt. Italy's risk may be well and truly present. That said, we expect the sell-off to slow, as spreads are significantly wider now, and if they continue down this route, we believe Credit may eventually become very attractive once again. In our view, the CSPP may continue to be active, although it seems it may already be starting to cut down ahead of an eventual tapering later this year.

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