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David Seban-Jeantet, Chief Investment Officer at Societe Generale Private Wealth Management and **Bertrand Durnez**, Head of Fixed Income Management, discuss the recent rise in interest rates and their impact on Moorea fixed income funds.

A REBOUND IN LONG-TERM RATES AGAINST A BACKDROP OF MONETARY POLICY NORMALISATION

Bond markets have experienced a new bout of weakness since the end of the summer, leading to a broader market correction. Rising inflation expectations and the prospect of a normalisation of the monetary policy in the United States are partly responsible for these movements. Is there cause for concern regarding a rise in interest rates? What strategies are implemented in our bond funds to protect them against this?

The US 10-year bond has risen to 1.53%, an increase of more than 30bps since the low points of late July. This rate increase mechanically leads to a loss in market value (of around 2.5%). On the 30-year bond, the rate change is fairly similar, but the loss in value is much greater (-6%) given the higher sensitivity to rates on longer maturities.

During his speech at the Jackson Hole symposium, Jerome Powell, the President of the US Federal Reserve (Fed), gave a reassuring speech on inflation. In particular, he said that the causes of the rise in inflation above the monetary policy objectives were considered temporary and largely linked to the reopening of the economy post-Covid.

However, the Fed gave details of the timetable for reducing its asset purchase programme (currently set at USD 120 billion per month) at the last monetary policy meeting on 22 September. The pace of asset purchases will thus decline from November onwards and should be spread out over the course of 2022. The first rate hike would only occur at the end of this process, in late 2022 or early 2023.

WHAT IS THE OUTLOOK FOR RATES OVER A LONGER-TERM?

In the medium term, the Fed considers the neutral rate for monetary policy to be around 2.50%, compared with 0% today. But the expected pace of rate increases should be gradual so as not to jeopardise the economic recovery. The scenario is largely dependent on the inflation regime observed in the next few years. Over the last decade, inflation rates have remained structurally below the Fed's objectives, which argues for a more accommodating monetary policy strategy incorporating non-conventional tools.

HOW HAVE MOOREA FUNDS FARED IN THIS NEW ENVIRONMENT?

Despite the sharp rise in interest rates in September and a violent contraction in the valuations of the longest dated bonds, Moorea Fund's range of bond funds in euros has shown good resilience and maintained good performances since the beginning of the year. While the government and investment grade credit indices lost more than 1.5% in September, the Moorea Fund Sustainable Euro Fixed Income and Euro High Yield Short Duration funds corrected by around 0.3% and managed to maintain a performance of around 1.8% since the beginning of the year. The Moorea Sustainable Floating Rate Income fund, whose strategy is designed to take advantage of the rebound in interest rates, contracted only slightly, by -0.1% in September, essentially as a result of the widening of credit spreads linked to equity markets volatility rather than because of its sensitivity to interest rates. The fund, which remains very defensive in its credit positioning, should achieve a higher return target as the prospect of a rate hike seems to be approaching.

WHAT OPERATIONS HAVE BEEN CARRIED OUT?

Leaving aside the Moorea Sustainable Floating Rate Income fund, which was designed and built to take advantage of a rise in rates, and Moorea High Yield Opportunities 2025, which is a carry fund, numerous operations were undertaken within the Moorea Fund Sustainable Euro Fixed Income and Euro High Yield Short Duration in order to prepare them for a potential rise in rates, starting in August.

Having identified the probable risk of a rise in interest rates in the run-up to the Jackson Hole symposium, the management team wanted to significantly reduce the interest rate sensitivity of these two funds and increase the liquidity pocket. For example, the sensitivity of the Moorea Sustainable Euro Fixed Income fund was reduced from 4.3 to 3.2 years between May and September. The cash position has increased from 0 to 8.8% of the fund's assets, allowing the portfolio to be protected and to seize opportunities when levels become attractive again. This reduction in sensitivity was achieved by selling the fund's longest dated bonds, some of which had maturities of over 10 years. The fund had in fact taken tactical exposure to very long bonds to take advantage of the fall in rates that had prevailed until then. The sale of these securities allowed the funds to realise the related capital gains. Faced with these sales, the fund favoured low-duration securities such as floating-rate bonds whose coupon is revised upwards when rates rise. These securities now represent almost 9% of the portfolio. The fund has maintained its exposure to inflation-linked bonds, which represent more than 7% of Moorea Sustainable Euro Fixed Income's current exposure. Finally, it has also increased its diversification into less sensitive securities such as floating rate subordinated bonds and convertible bonds. This last strategy has been further played out in a fund such as Moorea Fund Euro High Yield Short Duration, which has a more active profile and seeks a higher yield. Finally, we further increased the hedging of these two funds by purchasing a double short Bund tracker.

WHAT ADVANTAGES DO THE MOOREA FUNDS HAVE IN THIS CONTEXT?

First and foremost, we are fortunate to have a fund that is ideally designed and built for this type of environment: Moorea Fund Sustainable Floating Rate Income. It is designed to take advantage of rising interest rates as it invests mainly in bonds whose coupons will rise as interest rates rise. As we have seen previously, the Moorea Fund Euro High Yield Short Duration and Sustainable Euro Fixed Income have shown strong momentum in the rise in rates. In an adverse interest rate market, these funds rely on a high level of reactivity and diversification towards attractive yield products in order to continue to deliver performances in line with bond investors' expectations. Finally, our Moorea Fund High Yield Opportunities 2025 carry fund offers visibility and an attractive yield over a relatively short time horizon, for investors looking for this bond strategy.

KEY INFORMATION

	Moorea Fund – High Yield Opportunity 2025	Moorea Fund – Sustainable Floating Rate Income	Moorea Fund – Sustainable Euro Fixed Income	Moorea Fund – Euro High Yield Short Duration
UCITS risk/return profile (1 to 7)	**4**	**3**	**3**	**4**
Investment horizon	5 Years	3 Years	5 Years	3 Years
Legal structure	Sicav Luxembourgeoise UCITS			
Management company	Société Générale Private Wealth Management S.A.			
Custodian / Valorizer	Société Générale Luxembourg			
Reference currency	EUR			
Initial net asset value	250 EUR			
Initial launch date	April 2020	October 2014	March 2013	November 2013
Valuation - Subscriptions / redemptions	Weekly	Daily	Daily	Weekly

AVAILABLE SHARE CLASSES

Moorea Fund – High Yield Opportunity 2025

		ISIN Codes	Ongoing charges*	of which management fees
RE	Retail EUR Cap	LU2108469649	1.03%	0.65%
RE-D	Retail EUR Dis	LU2108469722	1.02%	0.65%
RUHE	Retail USD Cap	LU2108469995	1.02%	0.65%
RUHE-D	Retail USD Dis	LU2108470068	1.02%	0.65%
IE	Instit EUR Cap	LU2108470142	0.82%	0.50%
IE - D	Instit EUR Dis	LU2108470225	0.82%	0.50%

Moorea Fund – Sustainable Floating Rate Income

		ISIN Codes	Ongoing charges*	of which management fees
RE	Retail EUR Cap	LU1115951946	0.74%	0.40%
RE-D	Retail EUR Dis	LU1115981182	0.74%	0.40%
IE	Instit EUR Cap	LU1115981935	0.55%	0.35%

INTERVIEW MOOREA FUND – RISING YIELDS

Moorea Fund – Sustainable Euro Fixed Income

		ISIN Codes	Ongoing charges*	of which management fees
RE	Retail EUR Cap	LU1023727867	0.99%	0.80%
RE-D	Retail EUR Dis	LU1023727941	0.99%	0.80%
RUHE	Retail USD Cap	LU1137258932	0.99%	0.80%
RUHE-D	Retail USD Dis	LU1137259153	1.00%	0.80%
IE	Instit EUR Cap	LU1023728089	0.75%	0.60%

Moorea Fund – Euro High Yield Short Duration

		ISIN Codes	Ongoing charges*	of which management fees
RE	Retail EUR Cap	LU0979136255	1.27%	1.00%
RE-D	Retail EUR Dis	LU0979136339	1.27%	1.00%
RUHE	Retail USD Cap	LU1023728758	1.27%	1.00%
RUHE-D	Retail USD Dis	LU1023728832	1.27%	1.00%
IE	Instit EUR Cap	LU0979136503	0.92%	0.70%

**Ongoing charges are based on the expenses for the last financial year. They may vary from year to year.*

RISK FACTORS

This risk classification is a Synthetic Risk and Reward Indicator (SRRI) as required for UCITS. The sub-fund has been defined as an absolute performance fund under the Directives of the Committee of European Securities Regulators (CESR). The SRRI has been calculated based on the monthly historic volatility over five years of portfolios managed under the same strategy. The SRRI of UCITS must be calculated using the annualised volatility intervals shown below. These volatility intervals reflect the increasing level of risk borne by the fund and, therefore, its position in the risk scale.

Regarding the UCITS Risk scale from 1 (lowest risk) to 7 (highest risk), the lowest category does not mean a risk-free investment. The risk and reward category shown is not guaranteed to remain unchanged and the categorisation of the fund may shift over time. The prospectuses, KIID (Key Investor Information Document) and annual reports are available on request or on the website ww.sgpwm.societegenerale.com

GLOSSARY

ESG RATING

MSCI ESG Ratings aim to measure a company's resilience to long-term, financially relevant ESG risks (Environment, Social et Gouvernance). For each company a Weighted Average Key Issue Score is calculated based on the underlying Key Issue scores and weights. To arrive at a final letter rating, this score is normalized by industry. The Industry Adjusted Score corresponds to a rating between AAA and CCC. These assessments of company performance are not absolute but are explicitly intended to be relative to the standards and performance of a company's industry peers.

Letter Rating	CCC	B	BB	BBB	A	AA	AAA
Score	0 - 1.4	1.4 - 2.9	2.9 - 4.3	4.3 - 5.7	5.7 - 7.1	7.1 - 8.6	8.6 - 10

SUSTAINABLE IMPACT REVENUES

Revenue exposure to Sustainable Impact Solutions reflects the extent to which company revenue is exposed to products and services that help solve the world's major social and environmental challenges. It is calculated as a weighted average, using portfolio or index weights and each issuer's percent of revenue generated from Sustainable Impact Solutions. To be eligible to contribute, an issuer must maintain minimum ESG standards.

CONTROVERSY

An ESG Controversy may be defined as an incident or ongoing situation in which a company faces allegations of negatively impacting stakeholders (i.e.: workers, communities, the environment, shareholders, or society at large), via some type of wrongdoing across several ESG indicators. The aim of ESG Controversies research is to assess the severity of the negative impact of each situation, rather than the extent of negative press attention or public opprobrium.

For each issuer, the ESG rating comes along with a Controversy flag which reflects the lowest flag among analyzed key indicators.

- Green flag: the company is not involved in major recent controversies
- Yellow flag: in recent moderate-to-severe level controversies
- Orange flag: one or more recent severe structural controversies that are ongoing
- Red flag: one or more recent very severe controversies

Controversy flag translates also into controversy score: Red 0 - Orange 1 - Yellow 2 to 4 - Green 5 to 10

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POTENTIAL RISKS IN CASE OF AN INVESTMENT

Counterparty risk, liquidity risk, credit risk, operational risk, market risk, concentration risk.

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