Amundi Multi-Sector Fixed Income Strategy

Performance Update and Market Commentary | January 31, 2025

Amundi
Investment Solutions

Trust must be earned

Investment Philosophy

Amundi Multi-Sector Fixed Income Strategy is an active, value-driven strategy that invests across a broad range of global fixed income asset classes. This approach can produce higher potential returns than a US core investment grade strategy while working to limit volatility, due to the potential diversification1 benefits of less correlated non-investment grade and global fixed income sectors. Asset allocation and security selection are primary alpha sources, with contributions from interest rate and currency factors.

[1]Diversification does not assure a profit or protect against loss.

Performance Review

	1-Month	3-Month	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Inception[2]
Amundi Multi-Sector Fixed Income Strategy (Gross USD Composite)	1.01%	0.58%	1.01%	5.94%	1.02%	2.35%	3.58%	6.51%
Amundi Multi-Sector Fixed Income Strategy (Net USD Composite)	0.98%	0.48%	0.98%	5.52%	0.62%	1.95%	3.16%	6.10%
Bloomberg US Universal Index	0.60%	0.13%	0.60%	2.90%	-0.18%	-0.18%	1.60%	4.18%

[2]Performance inception is July 1, 1999

Gross of fee returns are presented before management and custodial fees, but after all transaction costs. Net of fee returns are net of model fees and calculated in the same manner as gross of fee returns using the Time Weighted Rate of Return method.

On July 3, 2017, Amundi Asset Management acquired Pioneer Investments (the "prior firm", now Amundi US). Performance prior to July 3, 2017 occurred while members of the portfolio management team were affiliated with the prior firm. Such members of the portfolio management team were responsible for investment decisions at the prior firm and the decision-making process has remained intact.

Please refer to the GIPS Report for additional information.

Past performance is no guarantee of future results.

Market Review

- The new year opened with strong domestic economic data reports that had investors repricing US Treasury yields higher and contemplating the implications on equity and credit markets. Notably, key business surveys tracking the US manufacturing and services sectors (Institute for Supply Management Indices) surprised to the upside and pointed towards continued post-US election optimism and activity. While the 49.3 headline reading for the Institute for Supply Management Manufacturing Index came in below the 50 level that typically corresponds with a stable economy, the number was the highest the widely followed US manufacturing survey has posted since late 2022. Then, the monthly non-farm payrolls report detailed robust December jobs growth, with 256,000 positions added and a decline in the unemployment rate from 4.2% to 4.1%.
- By January 13, 2025, the 10-year Treasury yield had risen 21 basis points since December 31, 2024 to 4.79%, its highest level since October 2023. Around mid-month, the bond market reversed course after producer and consumer inflation data came in cooler than expected. Bond investors were also reassured by the Federal Reserve's first Federal Open Market Committee meeting of 2025. Although the Committee elected to keep the Federal Funds rate target steady at 4.25% to 4.50%, Chair Powell noted that the Federal Reserve viewed the current Funds rate as "materially restrictive," implying that the next policy adjustment, when it comes, would likely be a rate cut. He further indicated a willingness to cut interest rates if the committee saw sustained progress on inflation, or a deterioration in the labor market. By January 31, 2025, the 10-year Treasury yield had fully retraced the early month climb, closing 3 basis points lower than December 31, 2024 at 4.54%.
- The Bloomberg US Aggregate Index returned 0.53%, slightly better than comparable Treasuries, as the largest spread sectors just slightly outperformed Treasuries (Bloomberg US Corporate Index +0.13% and Bloomberg US MBS Index +0.04%). Securitized credit posted stronger relative performance, with Bloomberg US CMBS Index outpacing Treasuries by +0.23%.
- All of the plus sectors outperformed on a total return basis:
  - Bloomberg US High Yield Index (+1.4%)
  - Morningstar LSTA US Leveraged Loan Index (+0.7%)

  - — Bloomberg Emerging Markets Sovereign Index (+1.8%)
  - — Bloomberg Emerging Markets Corporates Index (+0.8%)
- — Meanwhile, the US Dollar Index (DXY) ended the month slightly weaker, with oil prices slightly higher.

Performance Attribution

- — Amundi Multi-Sector Fixed Income Strategy had a gross USD return of 1.01% for the month, and a net return of 0.98%, compared to the Bloomberg US Universal Index return of 0.60%. Year-to-date, the Strategy has a gross USD return of 1.01%, and a net return of 0.98%, compared to benchmark performance of 0.60%.
- — Sector allocation contributed, benefiting from the 10% overweight to industrials, the 10% overweight to financials, the 11% allocation to non-agency mortgage-backed securities and the 7% overweight to asset-backed securities, as credit outperformed risk-free assets. The 4% exposure to event-linked (catastrophe) bonds were also a strong relative contributor.
- — Security selection benefited from outperformance within industrials and financials. Financials benefited from the outperformance of European bank issues, while industrials benefited from a range of issuers, including energy credits and a US cable firm.
- — Non-dollar exposure helped as the dollar fell, with exposures to the euro, Australian dollar and Brazilian real contributing.
- — Duration positioning contributed, as European and Turkish exposures offset the negative impact of the relative long US duration of 0.75 years over the benchmark.
- — Yield curve positioning contributed, benefiting from the overweights to the 5-year and 10-year US key-rate durations and underweight to the long end of the curve.
- — Relative quality had a modest positive impact.

Market Outlook and Positioning

- — While 2025 will not likely be as strong as the prior year, when annualized gross domestic product growth registered at 2.8%, we continue to believe we will see trend growth for the US economy, consistent with the successful achievement of a soft landing. Resilient consumption and higher fixed investment, as well as the implementation of the Trump Administration's deregulatory agenda, are favorable to the overall macro picture. However, depleted fiscal stimulus, immigration deportations and potential tariff implementation serve as offsets to the present momentum in growth. Meanwhile, we continue to believe inflation may moderate, as the core Personal Consumption Expenditures sees lagged benefits stemming from slowing insurance and shelter costs.
- — Of course, there is greater uncertainty surrounding this forecast with the beginning of Trump's second presidency, particularly the extent to which he invokes tariffs and execution on reduced border crossings and deportations. We believe that stickier than expected inflation, combined with potential inflationary pressures of tariffs, could keep the Federal Reserve on hold during the first half 2025, and then revert to 1 to 2 cuts by year-end. In this scenario, the 10-year US Treasury yield may end 2025 in a range of 4.3% to 4.7%. These yield levels are quite attractive, relative to history, with real yields and the term premium (reflecting greater uncertainty around rates, as investors lend further out the Treasury curve) driving these near-term highs in US rates.
- — We would also note that credit sector spreads are broadly tight and that investment grade corporates and high yield have close to record tight spreads. Within investment grade specifically, when adjusted for their current longer duration and lower quality (with more BBB-rated issues now, versus history), spreads are effectively at all-time lows.
- — Furthermore, while relative spreads between industrials and financials have compressed, financials continue to offer modestly more value than industrials. The sector that offers even more relative value is within agency mortgage-backed securities, where nominal spreads, versus investment grade corporates are relatively attractive. Within investment grade, our focus is on the shorter part of credit curve, as the curve is unusually flat at the moment.
- — We have been managing duration more tactically, given higher volatility in rates, responding to changes in the absolute level of US Treasury yields. We currently find the belly of the yield curve attractive, while holding an underweight to the longer end. Similarly, agency mortgage-backed securities are also being managed more tactically. We continue generally to have bias to higher coupon pass-throughs, as well as to less prepayment sensitive specified pools of conventional issuers. We have a modest exposure to securitized credit through the non-agency mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities sectors. We tend to favor being shorter duration on the asset-backed securities credit curve, benefiting from built in deleveraging, as well as ratings upgrades.

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Each portfolio is actively managed. Sector allocations will vary over other periods and do not reflect a commitment to an investment policy or sector. Holdings are subject to change due to active management. This should not be construed as a recommendation to buy or sell the securities listed.

Performance shown is past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted.

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Composite Name: Multi-Sector Fixed Income

Benchmark: BLOOMBERG US UNIVERSAL

Reporting Period:	*1 January 2014 to 31 December 2023*	**Composite Creation Date:**	*30 June 1999*
Reporting Currency:	*USD*	**Composite Inception Date:**	*1 July 1999*

Period	Composite Gross Return (%)	Composite Net Actual Fee Return (%)	Composite Net Model Fee Return (%) **	Benchmark Return (%)	Composite 3-Yr Standard Deviation (%)	Benchmark 3-Yr Standard Deviation (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (Millions)	Firm Assets (Millions)
2023	8.73	8.25	8.29	6.17	7.22	7.15	6	0.56	6,555	1,345,186
2022	-12.07	-12.68	-12.42	-12.99	10.04	5.98	6	0.38	6,782	1,191,419
2021	3.03	2.23	2.62	-1.10	8.78	3.48	6	0.35	8,875	1,264,636
2020	8.73	7.89	8.30	7.58	8.83	3.45	7	0.65	9,464	1,255,960
2019	11.23	N/A	10.78	9.29	2.13	2.66	7	N/A	9,590	1,104,104
2018	-0.94	N/A	-1.33	-0.25	2.68	2.71	10	0.11	7,239	1,051,994
2017	6.23	N/A	5.81	4.09	2.85	2.68	8	0.16	9,634	911,366
2016	8.28	N/A	7.85	3.91	3.03	2.90	7	0.58	9,654	706,043
2015	-0.62	N/A	-1.02	0.43	3.06	2.86	9	0.51	11,525	610,461
2014	5.41	N/A	4.99	5.56	3.27	2.69	8	0.32	12,396	654,151

** Composite Net Model Fee Returns are presented as supplemental information, effective 1 January 2020 on a prospective basis. See the Performance Calculation disclosure for more information.

Compliance Statement: Amundi claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Amundi has been independently verified for the periods 1 January 1994 to 31 December 2022. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Firm: For the purpose of GIPS® compliance, effective 1 January 2021, the Firm is defined as "Amundi" and includes the following: Amundi Asset Management, Société Générale Gestion, Amundi (UK) Ltd, Amundi Ireland Limited, Amundi SGR SpA, Amundi Deutschland GmbH, Amundi Austria GmbH, Amundi Japan Ltd, Amundi Hong Kong Ltd, Amundi Singapore Ltd, Amundi Malaysia Sdn Bhd, and Amundi Asset Management US, Inc. With respect to the Amundi firm history, on 1 October 2013, Amundi Asset Management acquired Smith Breeden Associates, Inc. and renamed it Amundi Smith Breeden LLC. On 1 January 2014, the Firm was expanded to include Amundi Japan Ltd and Amundi Singapore Ltd. On 3 July 2017, Amundi Asset Management acquired Pioneer Investments and renamed it Amundi Pioneer. Following the acquisition, on 1 January 2018, the Firm was redefined to include Amundi Pioneer. Amundi Smith Breeden LLC merged with and into Amundi Pioneer Institutional Asset Management, Inc. with the latter entity surviving the merger. The Firm expanded to include Amundi SGR SpA, Amundi Deutschland GmbH, and Amundi Austria GmbH. On 1 January 2021, Pioneer Investment Management, Inc. merged with and into its affiliate, Amundi Pioneer Asset Management. Inc. and the surviving entity changed its name to Amundi Asset Management US, Inc. With respect to the Pioneer Investments firm history, between 1 January 2010 and 31 December 2015, Pioneer Investments was redefined to only include assets managed exclusively by Pioneer Investment Management, Inc., Pioneer Institutional Asset Management, Inc., and Pioneer Investment Management Limited, and on 1 January 2016 reintegrated the assets of Pioneer Investment Management Sgr p.A. On 1 January 2022, Lyxor Asset Management merged with Amundi Asset Management with the latter entity surviving the merger.

Composite Description: The Strategy seeks to its index through actively managing a portfolio consisting of a broad range of global fixed income securities. The portfolio may invest up to 60% in non-investment grade issues. Important risks materially relevant to strategy include Market risk: risk of price fluctuation in the investment portfolios due to variations in market parameters: interest rates, exchange rates, securities prices, credit spreads, etc. Liquidity risk: in case of low trading volume on financial markets, any buy or sell trade on these markets may lead to important market variations/fluctuations that may impact your portfolio valuation. Counterparty risk: risk of default of a market participant to fulfil its contractual obligations vis-à-vis your portfolio. Operational risk: risk of default or error within the different service providers involved in managing and valuing your portfolio. Emerging Markets risk: Some of the countries invested in may carry higher political, legal, economic and liquidity risks than investments in more developed countries.
On 3 July 2017, Amundi Asset Management acquired Pioneer Investments ("the Prior Firm") and renamed it Amundi Pioneer. Following the acquisition, on 1 January 2018, the Firm was redefined to include the former Amundi Pioneer (now Amundi US, a legal entity within "the Firm"). Performance prior to January 2018 occurred while members of the portfolio management team were affiliated with the Prior Firm. Such members of the portfolio management team were responsible for investment decisions at the Prior Firm and the decision making process has remained intact within the Firm. Performance results presented from 2011 to 2017 occurred while these assets were not part of the Firm. In the Firm's opinion, such performance track record conforms to the GIPS standards with respect to the portability of investment performance results. Performance records of the Prior Firm are available upon request.

Minimum Account Size: There is no minimum asset level for inclusion in this composite.

Performance Calculation: Gross-of-fees returns are presented before management and custodial fees but after all transaction costs. Composite Net Actual Returns are net of actual fees, starting from composite gross returns, by subtracting fixed and variable management fees of all of the underlying portfolios. Composite Net Model Returns are net of model fees and are calculated, starting from composite gross returns, by geometrically subtracting the highest tier model fee for institutional segregated accounts. The Composite Net Model Returns are presented as supplemental information.
Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

Fee Schedule: The current standard annual investment management fee schedule for institutional separate accounts is 0.40% on the first 50 million; 0.35% on the next 50 million; 0.30% on the next 100 million; 0.20% thereafter. The investment management fee schedule for both the Collective Investment Trust (CIT) and Limited Liability Company (LLC), which are included in the composite, is 0.35% on the first 50 million; 0.30% on the next 50 million; 0.25% on the next 100 million; 0.20% thereafter; and the total expense ratio is 0.43%.

Internal Dispersion: Dispersion is defined as the standard deviation of the annual gross returns of all portfolios that were included in the composite for the entire year. For those years when five or fewer portfolios were included in the composite for the full year, no dispersion measure is presented.

Three-Year Annualized Standard Deviation: The Three-year Annualized Ex-Post Standard Deviation measures the volatility of gross returns for the composite and benchmark over the preceding 36-month period, and is not applicable for performance periods with less than 36 months of returns based on the composite's performance inception date.

Benchmark Description: The benchmark of the composite is BLOOMBERG US UNIVERSAL.

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