

A new portfolio management team

Almost unchanged spreads despite volatility

Credit spreads in the High Yield (HY) market ended almost as tight as in the beginning of Q4 with some spread volatility within the quarter. Accrued interest was the largest positive contributor to the benchmark return for the quarter with price decreases contributing negatively to the benchmark return. This resulted in a benchmark return of 0.73% in Q4, bringing the year-to-date return up to 6.22%.

Market sentiment fluctuated during the quarter as investors reacted to shifting expectations around monetary policy, geopolitical developments, and sector-specific concerns. Credit spreads experienced modest widening at times—particularly in the US—reflecting episodes of risk aversion, but fundamentals across the high-yield universe remained broadly stable. Across credit quality tiers, the high-yield landscape exhibited resilience with BB-rated bonds whereas the risk appetite for lower-quality and more leveraged issuers decreased.

Primary market activity stayed robust, though issuance moderated from the record levels seen in the previous quarter. Refinancing transactions continued to dominate supply, as companies took advantage of still-favorable market conditions to extend maturities and strengthen balance sheets ahead of 2026. New issuance was generally well absorbed, with limited pricing concessions and healthy secondary market liquidity.

Overall, the fourth quarter reinforced the role of global high yield as a carry-driven asset class capable of delivering steady returns in a stable but increasingly late-cycle environment, albeit with heightened sensitivity to adverse macro or geopolitical developments.

In the quarter, a new portfolio management team was appointed to continue the strategy. The new team consists of Chief Portfolio Manager Anders Arendal, Senior Portfolio Manager Caroline Goth and Portfolio Manager Nicklas Andie Nielsen. During the quarter, the team have conducted a comprehensive review of the portfolio and implemented

several adjustments aimed at strengthening the risk management. In particular, exposure to idiosyncratic positions was reduced through exits and reductions in underperforming issuers. These actions were taken to improve the portfolio's risk profile and better align the strategy with its intended risk-return profile going forward.

Idiosyncratic stories affecting the return

The portfolio delivered a positive return of 0.55% in Q4, which was 0.18 percentage points behind the benchmark. Year-to-date the fund's return is 5.54%, which is 0.68 percentage points behind of the benchmark.

The underperformance relative to the benchmark was primarily driven by idiosyncratic risk from a handful of positions that significantly detracted from returns, as these companies faced exceptional challenges during the quarter.

In the fourth quarter, the team assumed responsibility for the strategies and focused among other initiatives on reducing exposure to these idiosyncratic positions that had weighed heavily on performance. Despite these efforts, idiosyncratic factors continued to contribute to underperformance.

From an allocation perspective, sector dispersion remained pronounced. Overweight exposure and strong issuer selection within the Materials sector—particularly metals and mining—contributed positively amid stable commodity prices and improving fundamentals. In contrast, underweights in Communication and Energy, combined with weaker credit selection, detracted from relative performance. During the quarter, the funds also participated in 15 new issues, while actively building new positions and trimming or exiting existing holdings.

Overall, the quarter highlighted the importance of stringent risk management to mitigate the impact of idiosyncratic stories that can impact the return substantially negatively.

Strategy

Global Short Dated High Yield invests in short-dated (1-5Y) corporate bonds with a rating from BB-B, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings.

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