



FAIRTREE

Global Credit: This time it's going to be different (again)

Nulli secundus

Values-driven Investing

Paul Crawford
May 2025



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***All** things are **Always** on the move
Simultaneously*

Winston Churchill





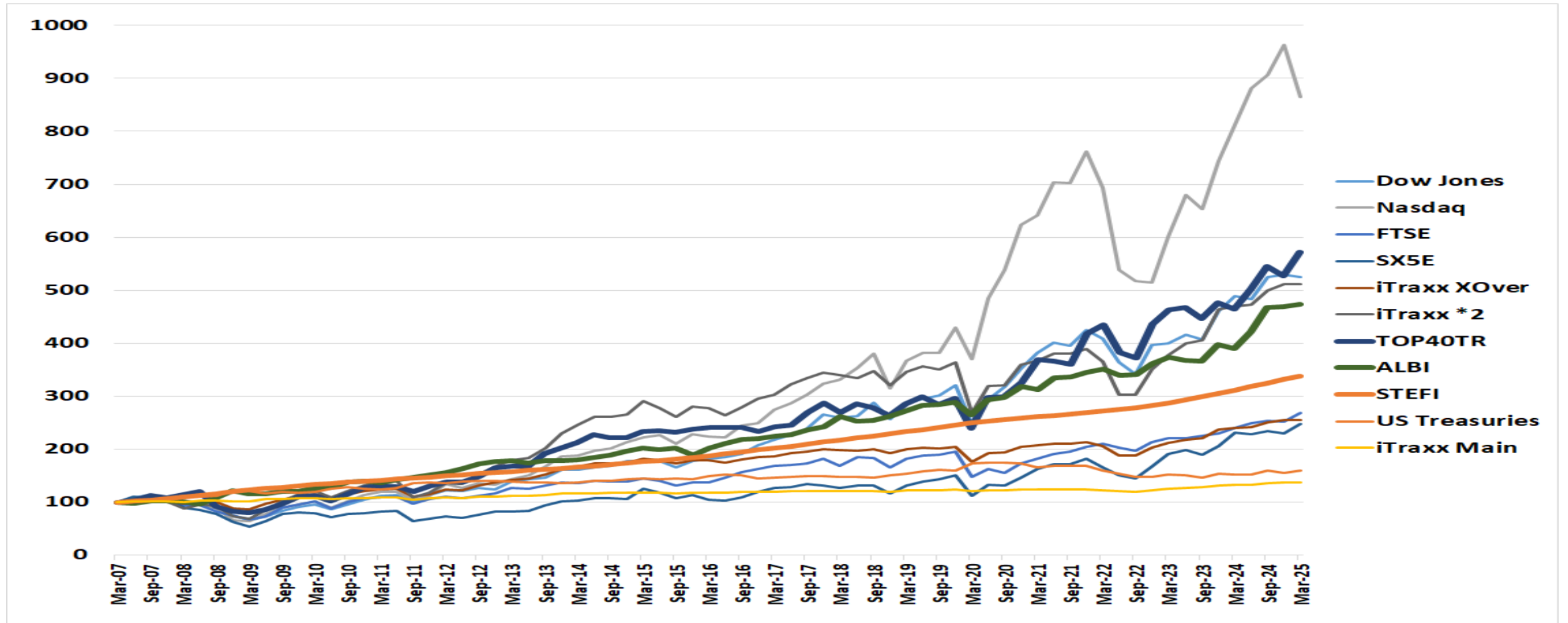
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Performance traces in Local Currency

It's risky to shun risk

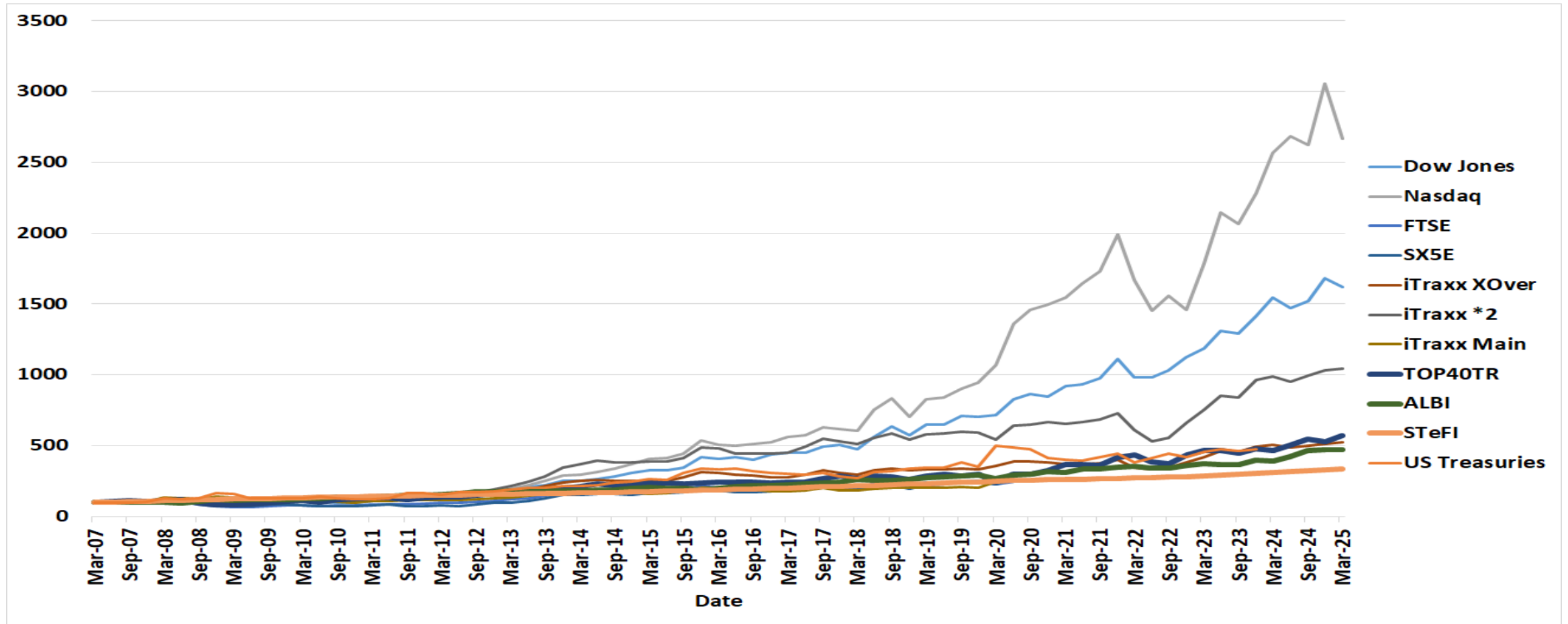


Source: Bloomberg



Performance traces in ZAR, change the scale

It's all about the base

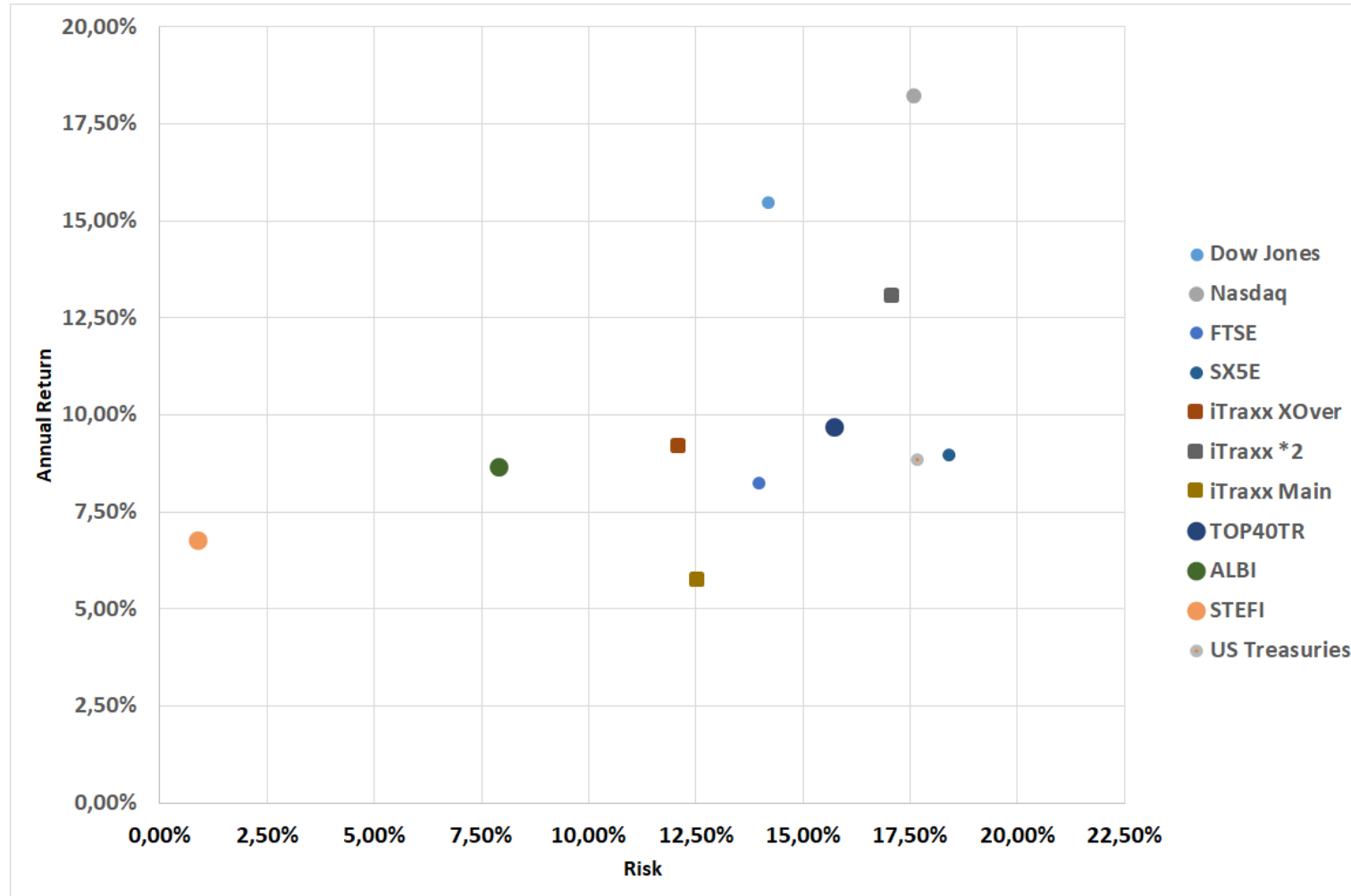


Source: Bloomberg



Risk Reward in ZAR : STDEV v CAGR (cc)

Where did you have your money?



Source: Bloomberg





We are the last Dodos on the planet, so I've put all of our eggs safely into this basket...

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Losses due to defaults

- The dreaded “D” word
- “How many defaults have you experienced?”
- Losses are a function of breadth of portfolio, default rate and actual loss given default
- More breadth more defaults but less severity
- Well diversified portfolio has no control over global default rate
- Portfolio manager has no control over recoveries
- Portfolio manager does have control over breadth of portfolio

$$PortfolioCreditLoss \cong \sum_{n=1}^m LGD_n \times Exposure_n$$



Let's look at the actual default experience

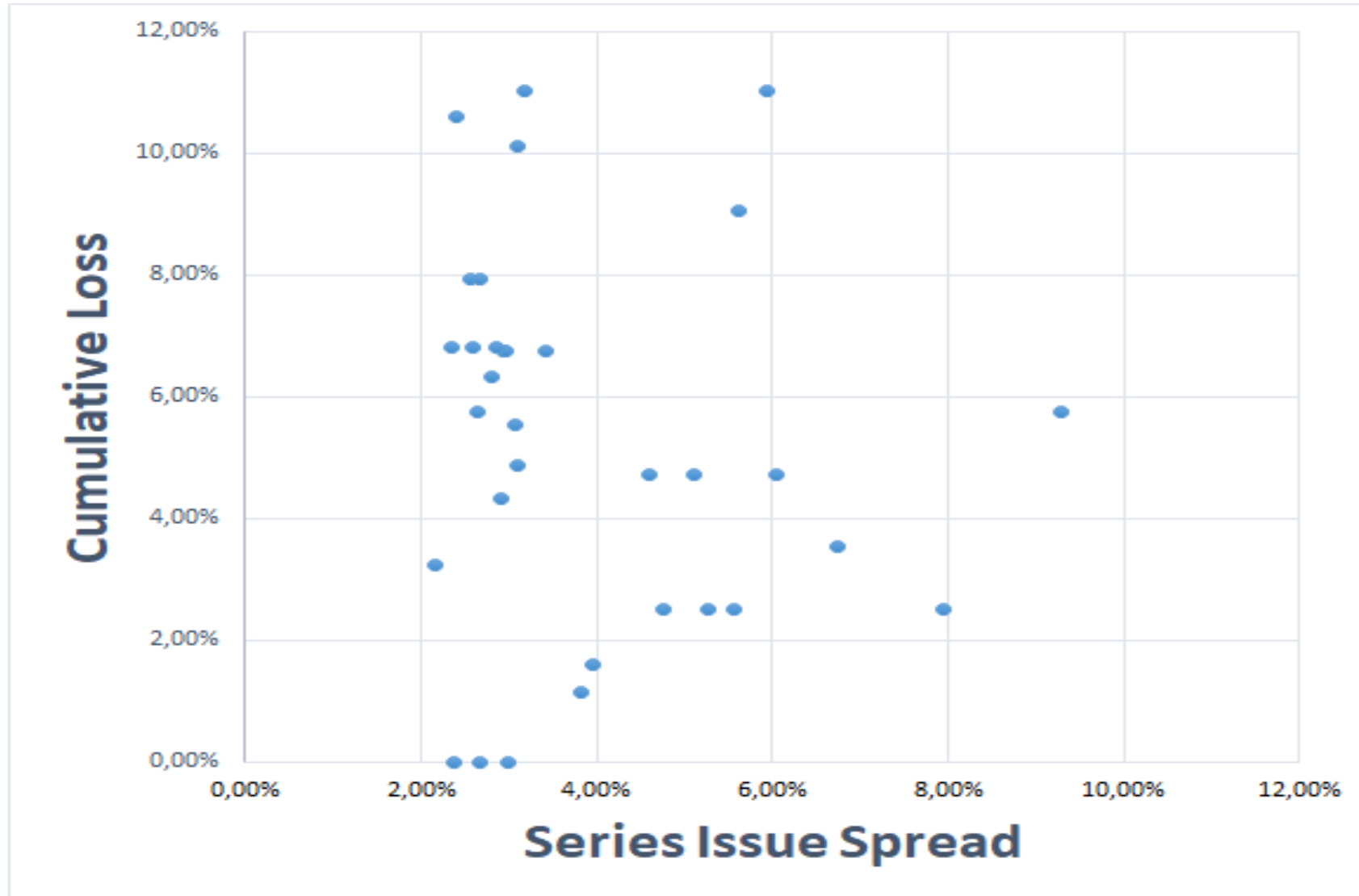
- iTraxx XOver Index reconstitutes every 6 months
- Currently Series 43 Series 44 will be launched in September
- Investor experience determined by which series they were invested in timing?
- Does timing actually play a part?
- Can one mitigate timing risk ? Getting exposed to a bad bunch of names?
- Individual series versus on the run investing
- What does history tell us?



Series	Inception Date	Maturity Date	Issue Spread	Number of Defaults	Capital Loss
1	20-Mar-04	20-Jun-09	2,98%	0	0,00%
2	20-Sep-04	20-Dec-09	2,66%	0	0,00%
3	21-Mar-05	20-Jun-10	2,38%	0	0,00%
4	21-Sep-05	20-Dec-10	3,10%	2	4,88%
5	20-Mar-06	20-Jun-11	2,90%	2	4,34%
6	20-Sep-06	20-Dec-11	2,82%	3	6,34%
7	20-Mar-07	20-Jun-12	2,41%	6	10,58%
8	20-Sep-07	20-Dec-12	3,17%	7	11,03%
9	20-Mar-08	20-Jun-13	5,94%	7	11,03%
10	22-Sep-08	20-Dec-13	5,62%	6	9,06%
11	20-Mar-09	20-Jun-14	9,28%	4	5,74%
12	21-Sep-09	20-Dec-14	6,03%	3	4,71%
13	22-Mar-10	20-Jun-15	4,60%	3	4,71%
14	20-Sep-10	20-Dec-15	5,11%	3	4,71%
15	21-Mar-11	20-Jun-16	3,81%	2	1,14%
16	20-Sep-11	20-Dec-16	7,95%	3	2,51%
17	20-Mar-12	20-Jun-17	5,57%	3	2,51%
18	20-Sep-12	20-Dec-17	5,28%	3	2,51%
19	20-Mar-13	20-Jun-18	4,77%	3	2,51%
20	20-Sep-13	20-Dec-18	3,95%	2	1,60%
21	20-Mar-14	20-Jun-19	3,08%	5	5,53%
22	22-Sep-14	20-Dec-19	2,34%	8	6,79%
23	20-Mar-15	20-Jun-20	2,58%	8	6,79%
24	21-Sep-15	20-Dec-20	3,09%	10	10,10%
25	21-Mar-16	20-Jun-21	2,94%	7	6,74%
26	20-Sep-16	20-Dec-21	3,42%	7	6,74%
27	20-Mar-17	20-Jun-22	2,96%	7	6,74%
28	20-Sep-17	20-Dec-22	2,57%	8	7,94%
29	20-Mar-18	20-Jun-23	2,86%	10	6,82%
30	20-Sep-18	20-Dec-23	2,66%	9	7,93%
31	20-Mar-19	20-Jun-24	2,64%	7	5,76%
32	20-Sep-19	20-Dec-24	2,16%	5	3,23%
33	20-Mar-20	20-Jun-25	6,75%	6	3,55%
34	22-Sep-20	20-Dec-25	3,29%	3	1,64%
35	22-Mar-21	20-Jun-26	2,72%	2	1,64%
36	21-Sep-21	20-Dec-26	2,48%	2	1,64%
37	23-Mar-22	20-Jun-27	3,71%	2	1,64%
38	22-Sep-22	20-Dec-27	6,18%	2	1,64%
39	24-Mar-23	20-Jun-28	4,96%	2	1,64%
40	20-Sep-23	20-Dec-28	4,06%	2	1,61%
41	20-Mar-24	20-Jun-29	2,92%	1	0,32%
42	20-Sep-24	20-Dec-29	3,12%	1	0,32%



Is there a relationship between issue spread and losses?



Source: Bloomberg, internal

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176 defaults in total

Average number of defaults = 4,2

Average cumulative loss = 4,44%

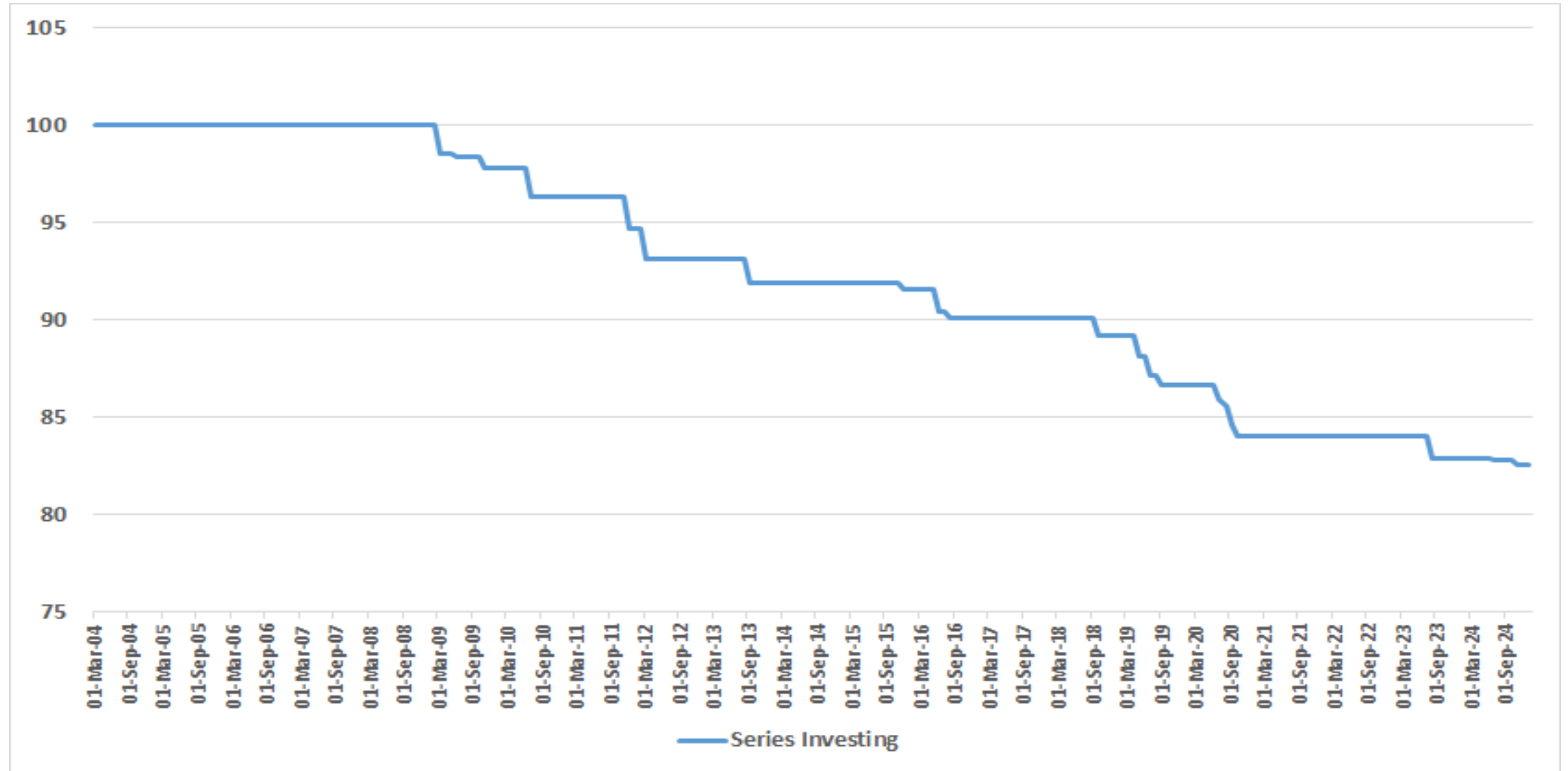


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676 underlying names
27 actual defaults
Average loss: 65%
Expected defaults: 6,5
Expected losses: 5,5%



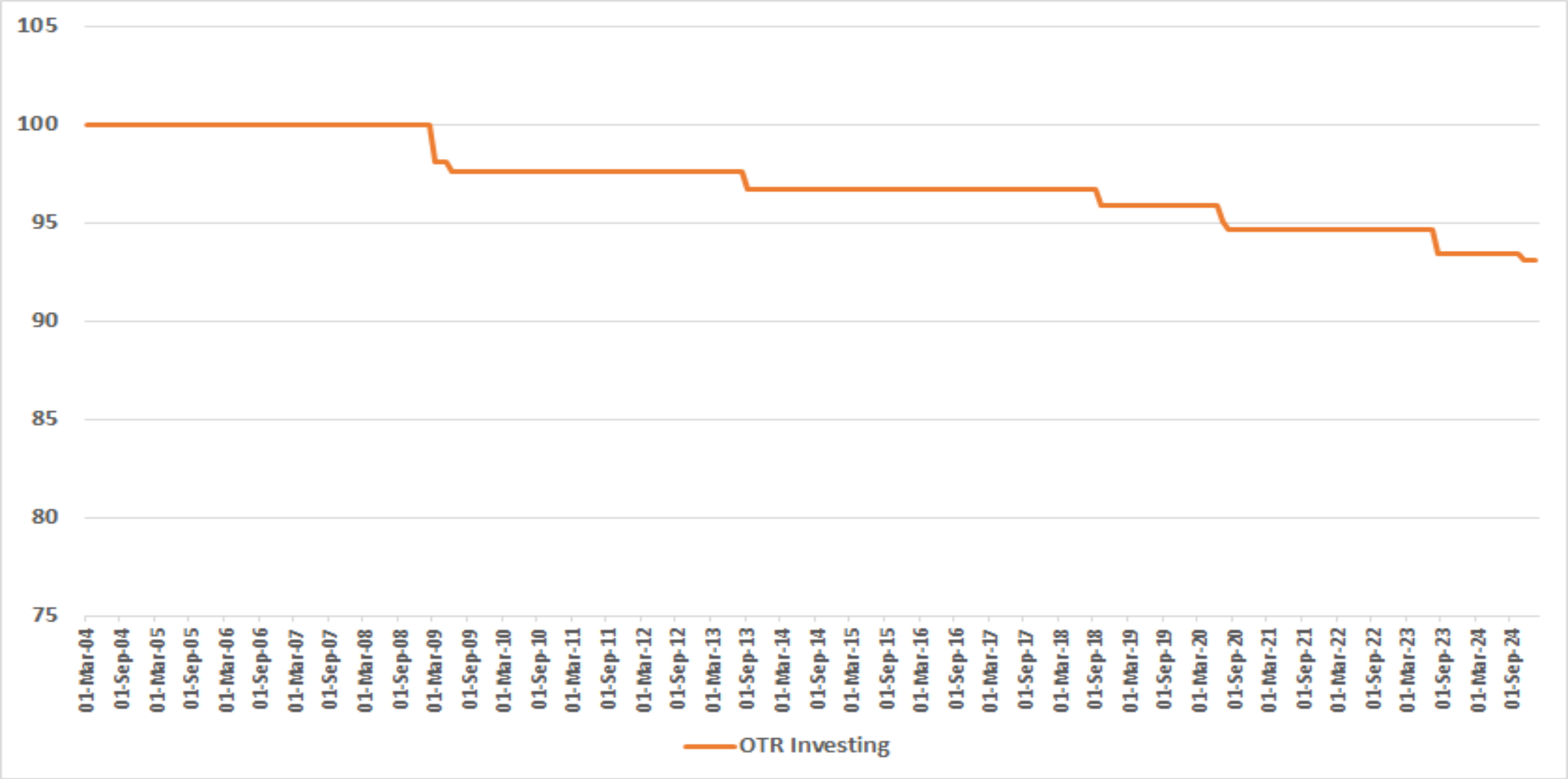
Capital outstanding: Series based investing



Source: Bloomberg, internal

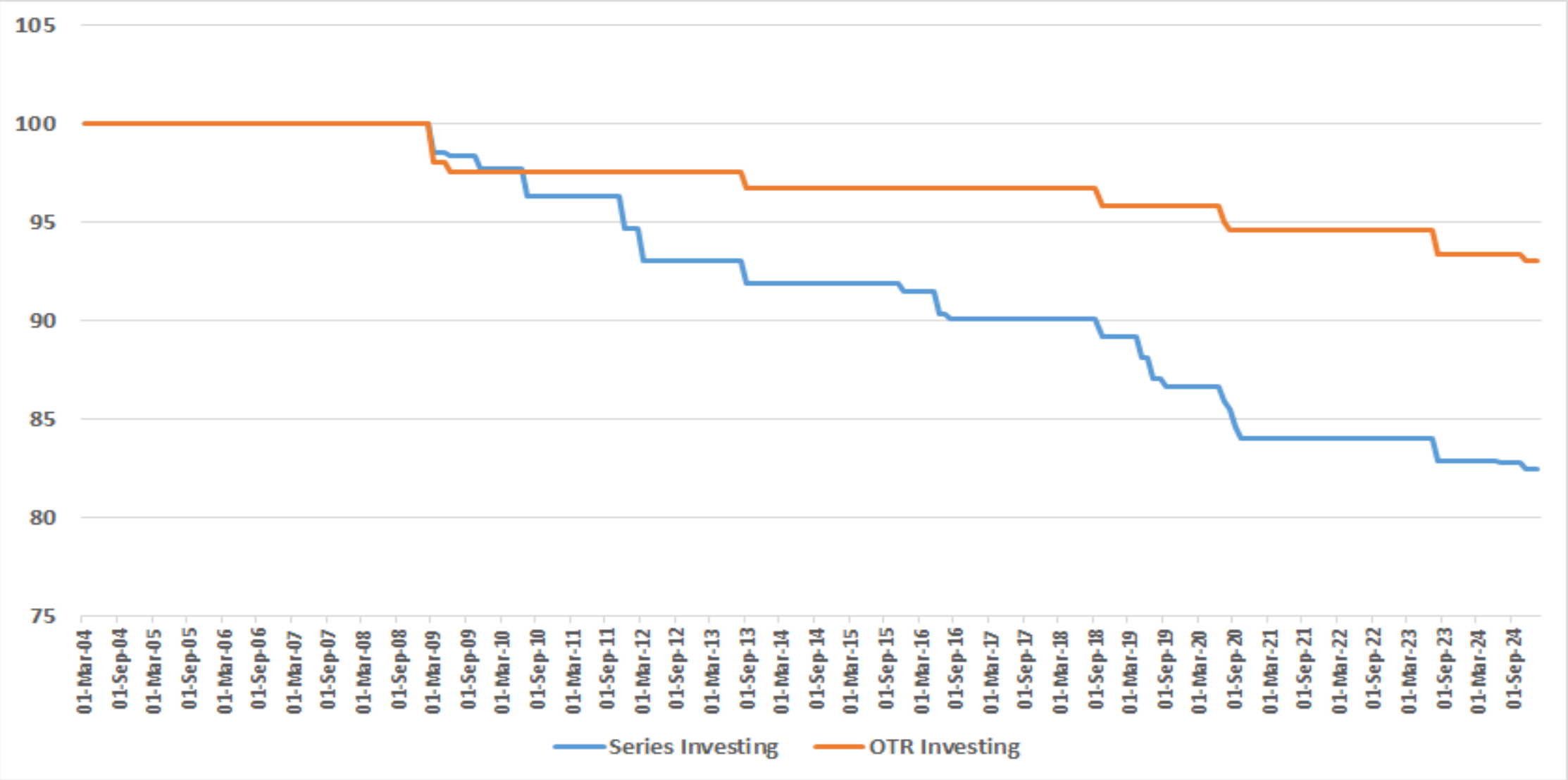


Capital outstanding: On The Run (OTR)based investing



Source: Bloomberg, internal

Capital outstanding: Comparative



Source: Bloomberg, internal



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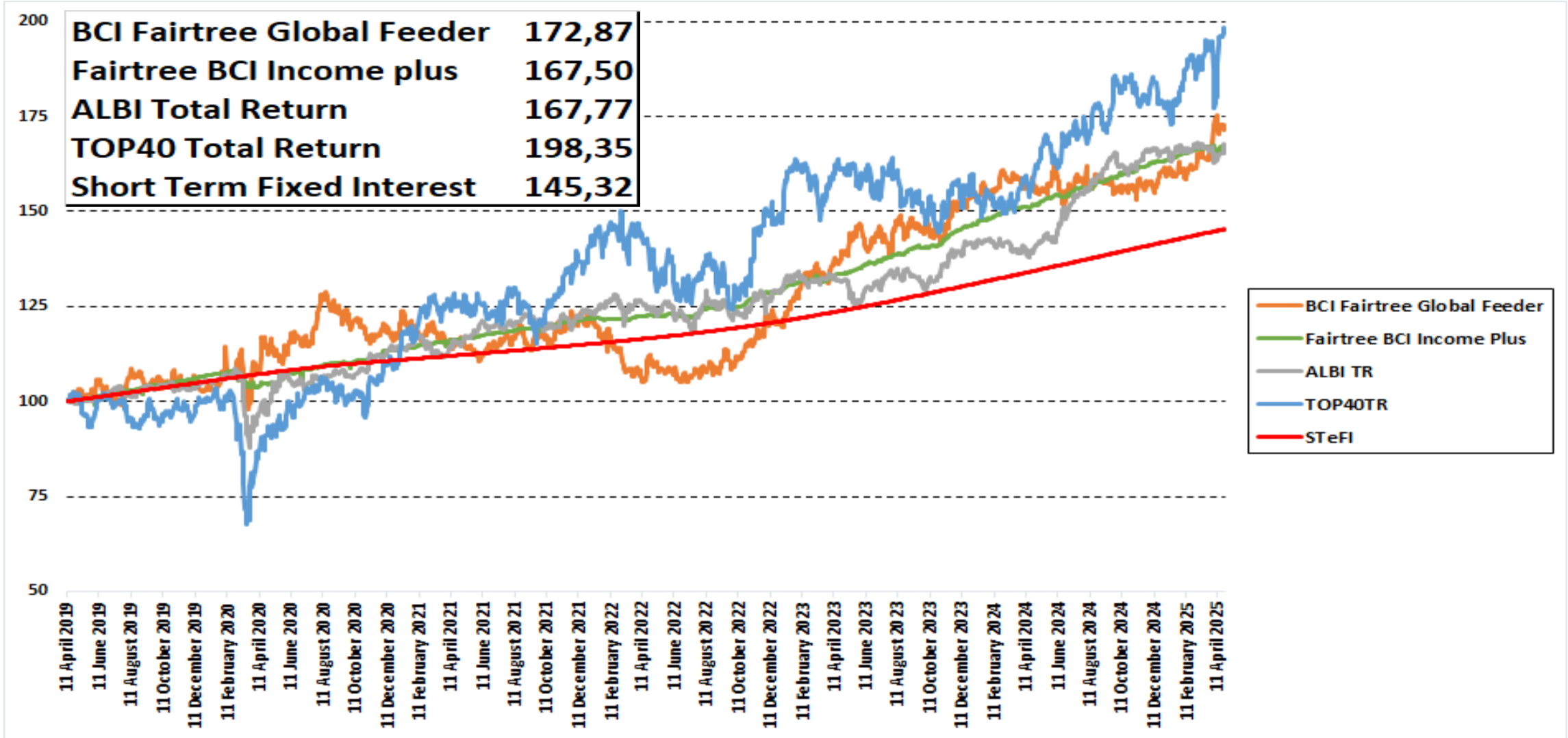
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BCI Fairtree Global Income Plus Feeder Fund

- Response to the launch of our Global UCITS fund
- Feeder Fund allows ZAR based investors to access Euro denominated UCITS
- Fund launched in 12 April 2019
- Roll up fund, so preferable tax treatment
- Fund Benchmark: iTraxx XOver 5 year Total Return Index (Bloomberg: ITRXTX5I)
- 75 equally weighted, highly liquid global sub-investment grade credits, index reconstituted semi-annually, currently Series 42
- Index well understood, well traded, representative, fungible, replicable etc etc

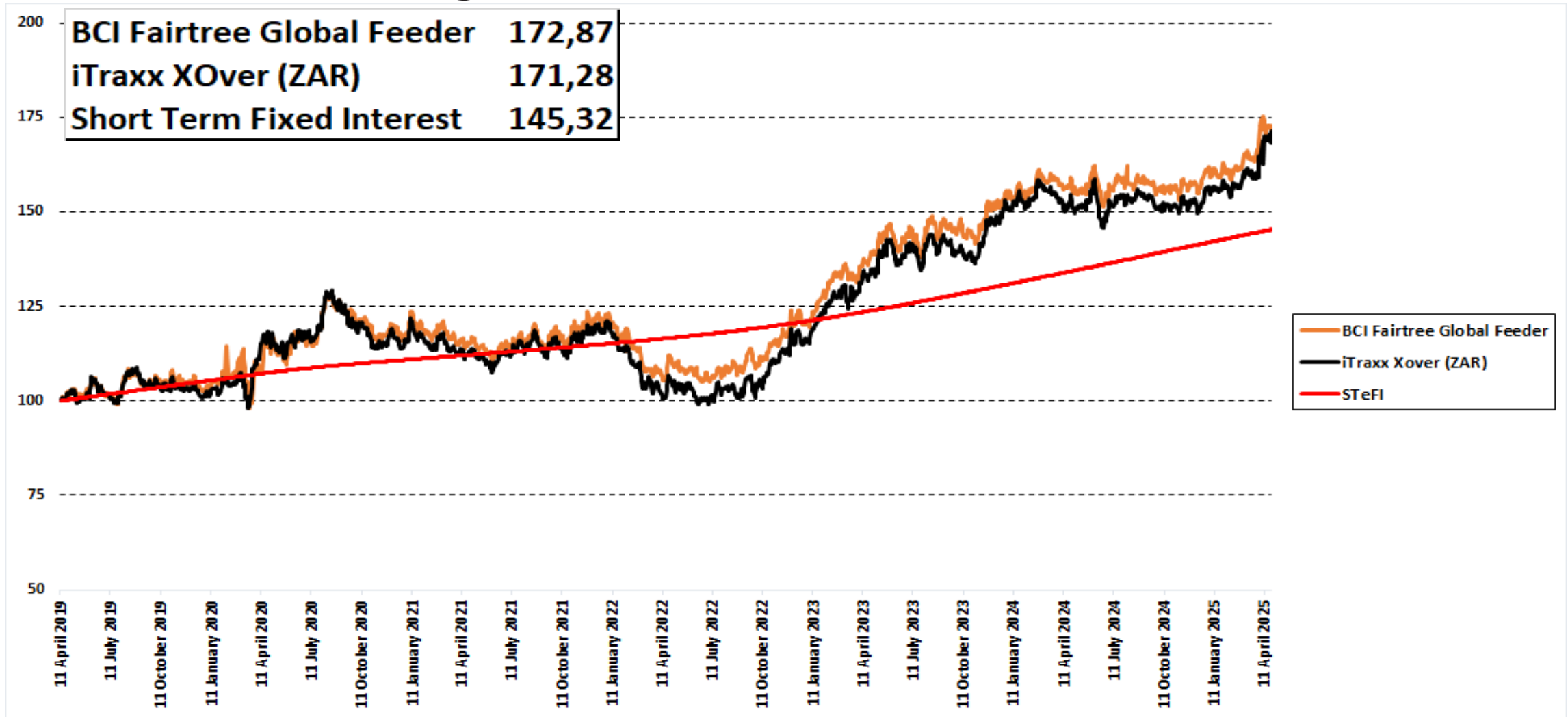
Performance indexed to 100 upon inception (11 April 2019)



Source: Bloomberg. Performance figures are shown for illustrative purposes only and relate to Class B which has a TER of 0,25%pa. 11 April 2019 to 24 April 2025. Maximum Calendar 12 month performance 27,40%, minimum -1,37%. Fund risk, as described as the annualised standard deviation of monthly returns since inception 10,70%. Maximum monthly drawdown 3years :4,8%, since inception: 15,32%. Benchmark 3 years 5,4%:, since 30 April 2019:17%. Actual numbers are available upon request.



How has it done against it's benchmark in ZAR?



Source: Bloomberg. Performance figures are shown for illustrative purposes only and relate to Class B which has a TER of 0,25%pa. 11 April 2019 to 24 April 2025. Maximum Calendar 12 month performance 27,40%, minimum -1,37%. Fund risk, as described as the annualised standard deviation of monthly returns since inception 10,70%. Maximum monthly drawdown 3years :4,8%, since inception: 15,32%. Benchmark 3 years 5,4%:, since 30 April 2019:17%. Actual numbers are available upon request.

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Conclusions

- This time it will be different..... but very similar to what happened previously
- Diversification favours an allocation to the asset class
- Default risk controlled via breadth of portfolio
- Invest in OTR which avoids defaults but increases MTM risk
- Fund has outperformed benchmark since inception
- Diversify your portfolios to avoid reliance on single managers/ asset classes/ indices



Thank you

Values-driven Investing

