LIONTRUST
COURAGE · POWER · PRIDE

Global Fixed Income

Q3 2025 Review

Liontrust GF High Yield Bond Fund

Phil Milburn
Co-Head Global Fixed Income Team

Donald Phillips
Co-Head Global Fixed Income Team

Sharmin Rahman
Fund Manager

The Fund (C5 sterling accumulation class) returned 3.1%* in sterling terms in Q3 2025 while the ICE Bank of America Merrill Lynch Global High Yield Index (GBP hedged) comparator benchmark returned 2.6% and the average return for the IA Sterling High Yield reference sector was 2.5%. The primary B5 US dollar share class returned 3.2%, while the ICE Bank of America Merrill Lynch Global High Yield Index (USD hedged) comparator benchmark returned 2.6% and the average return for the EAA Fund USD High Yield Bond (Morningstar) reference sector was 2.2%.

We also compare the Fund's performance to a leading Global High Yield ETF (seeking to outperform by 1.5% a year)[†]. The Fund's C5 sterling shares class return was ahead of the ETF in Q3 and has now outperformed by nine percentage points since inception (June 2018).

The global high yield market returned 2.6% (US dollar terms) in the third quarter of 2025.

The US high yield market produced a 2.4% return. In Europe, the high yield market also returned 2.4% (US dollars). Single-Bs were the best performing part of the market by rating at 2.68%, only marginally ahead of CCCs at 2.66% and 2.58% for double-BBs.

During the quarter, we benefited from a positive credit event among our holdings: Tegna, a US media company operating television and radio stations, entered advanced acquisition talks with Nexstar. We held Tegna's longer-dated 2029 bonds, which offered the most capital upside within the company's capital structure. Following the news, these bonds rallied by three points. As the bonds carried a change of control covenant – entitling bondholders to a 101 repurchase price if triggered – the upside became limited after the rally. Consequently, we decided to take profits and reduce potential risk in the event the deal did not close.

The primary market was relatively quiet over the summer but picked up in September, driven mainly by BB-rated and B-rated issuers. We participated in three new issues: SoftBank (in euros), Boots (in sterling), and ZFF (in US dollars). We have a history of investing in both SoftBank and ZFF and were attracted by the relative value opportunities. Although we typically avoid the retail sector due to its cyclical nature, we found Boots appealing given its defensive product range, strong market position and brand in the UK, solid credit metrics, and the attractive value on offer for a single-B rated credit.

The remainder of our activity this quarter focused on maintaining portfolio freshness by recycling exposure from more expensive BB-rated credits into B-rated credits offering greater value. We also reduced exposure to the automotive sector, where tariff headwinds and softening demand led us to adopt a more cautious stance.

One position from the prior quarter was in Urbaser, a Spanish waste collection company. The initial transaction included proceeds to fund a dividend to shareholders – an aggressive structure, though one we felt adequately compensated for. However, only six weeks later, the company issued PIK notes (an instrument in the capital structure where issuers can have flexibility over whether coupons are paid upfront, or at the maturity of the bond) to fund a second dividend, which we viewed as overly aggressive. This highlighted the importance of ensuring management and creditor interests remain aligned – an essential aspect of our credit analysis. We therefore exited the position and realised profits once our conviction changed.

With the portfolio positioned defensively and given our emphasis on idiosyncratic risk management and stock selection, these factors collectively contributed to the Fund's strong performance during the quarter.

Outlook

Last quarter, the market was initially unsettled by the announcement of new tariffs. However, subsequent tariff-related news has been largely shrugged off, and the potential for further significant impact now appears to be mostly behind us.

So far, the anticipated inflationary effects of tariffs have not materialised to the extent initially feared. While US inflation is rising, the pass-through from tariffs tends to occur with a lag, and some of the cost pressures are being absorbed within corporate profit margins. The Federal Reserve's main concern is that higher goods prices could lead to increased wage demands and, consequently, stronger services inflation.

In September, the Fed implemented a 25-basis point rate cut, with the path of future cuts likely to depend on the resilience of the US labour market. However, the recent partial shutdown of the US government means labour market data releases will be delayed, making it more difficult to gauge the timing and pace of any further rate adjustments.

The primary market remains open, particularly for higher-rated issuers. Many new issues have been heavily oversubscribed, leading to a noticeable compression in the new issue premium. This reflects robust demand for bonds, indicating a supportive risk environment and a continued search for yield.

Credit spreads remain tight, meaning that carry – rather than spread tightening – is expected to be the dominant driver of returns going forward. With valuations somewhat stretched, the market has become more sensitive to adverse news or idiosyncratic credit stress. Dispersion is increasing, especially among weaker-rated issuers, where idiosyncratic risks are being more distinctly rewarded or punished.

A recent topical example in the leveraged loan market was the default of the auto parts company First Brands. The company had only leveraged loans outstanding and no high-yield bonds. It attempted to refinance its debt over the summer, which included approximately $5 billion in first-lien debt maturing in March 2027. While the first-lien loans were rated single-B, the second-lien loans were high-CCC, already signifying a high level of risk. The refinancing effort failed as investors became concerned about the company's accounting practices, prompting downgrades by rating agencies. First Brands subsequently filed for bankruptcy protection. This case illustrates how aggressive accounting and poor transparency can drive idiosyncratic distress – especially in instruments not marked to market, such as leveraged loans, where price signals are slower to reflect risk, unlike the high yield bond market.

Looking ahead, defaults and credit stress remain important watch points. A modest increase in default rates – particularly among lower-rated issuers – is not unexpected. However, large-scale systemic defaults are not anticipated under our base case scenario. In this environment, active management remains crucial in order to navigating rising dispersion.

Credits with stronger fundamentals, sound capital structures, and defensive characteristics are likely to outperform. With our disciplined focus on idiosyncratic risk and avoidance of concentrated thematic or cyclical exposures, we believe the Fund is well positioned to benefit. The Fund's current yield of 6.7% in US dollars (6.9% in sterling, 5.5% in euros) remains attractive from a risk/reward perspective.

Discrete years' performance (%) to previous quarter-end:
Past performance does not predict future returns

	Sep-25	Sep-24	Sep-23	Sep-22	Sep-21
Liontrust GF High Yield Bond C5 Acc GBP	9.9%	15.9%	12.5%	-18.0%	10.0%
ICE BofA Global High Yield Hedge GBP	7.6%	15.3%	10.2%	-16.9%	9.8%
IA Sterling High Yield	7.7%	13.0%	10.2%	-14.3%	10.6%
Quartile	1	1	1	3	3

	Sep-20
Liontrust GF High Yield Bond C5 Acc GBP	0.4%
ICE BofA Global High Yield Hedge GBP	1.3%
IA Sterling High Yield	-0.4%
Quartile	2

*Source: Financial Express, C5 share class, total return, net of fees and interest reinvested. As at 30.09.25. The primary share class for this Fund is in US dollars (B5) but we are showing the C5 sterling-hedged class to compare against the IA Sterling High Yield sector. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio.

†While the managers of the Fund seek to outperform a leading Global High Yield ETF by 1.5% a year net of fees over rolling three years, this is not a formal objective. There can be no guarantees this will be achieved over the stated time period. The formal objective of the Fund can be found in the Prospectus.

Key Features of the Liontrust GF High Yield Bond Fund

Investment objective & policy[1]	The investment objective of the Fund is to maximise total returns over the long term through a combination of income and capital growth, through investment in the global fixed income market. The Fund invests at least 50% of its assets in high yield bonds (i.e. bonds classified as below investment grade) issued by companies worldwide which are denominated in US Dollar or non-US Dollar bonds that are hedged back into US Dollar. Although the focus is on high yield corporate bonds, the Fund may also invest in investment grade corporate bonds, government bonds, cash or assets that can be turned into cash quickly. The Fund invests in developed and emerging markets, with a maximum of 20% of its net assets invested in emerging markets. Where the Fund invests in non-US Dollar assets, the currency exposure of these investments will generally be hedged back to US Dollar. Up to 5% of the Fund's currency exposure may not be hedged (i.e. the Fund may be exposed to the risks of investing in another currency for up to 5% of its assets). The Fund may invest both directly, and through the use of derivatives. The use of derivatives may generate market leverage (i.e. where the Fund takes market exposure in excess of the value of its assets). The Fund has both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund. The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRI)[2]	5
Active/passive investment style	Active
Benchmark	The Fund is considered to be actively managed in reference to the ICE BofAML Global High Yield Hedge USD Index (the "Benchmark") by virtue of the fact that it uses the Benchmark for performance comparison purposes. The Benchmark is not used to define the portfolio composition of the Fund and the Fund may be wholly invested in securities which are not constituents of the Benchmark.
Sustainability profile	The Fund is a financial product subject to Article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Notes: 1. As specified in the PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID for further detail on how this is calculated.

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.com/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

The creditworthiness of a bond issuer may also affect that bond's value. Low rated (high yield) or equivalent unrated debt securities of the type in which the Fund will invest generally offer a higher return than higher rated debt securities, but also are subject to greater risks that the issuer will default. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

The Fund can invest in derivatives. Derivatives are used to protect against currency, credit or interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

The Fund uses derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

The Fund invests in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of the fund over the short term.

The Fund may encounter liquidity constraints from time to time. Participation rates on advertised volumes could fall reflecting the less liquid nature of the current market conditions.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Disclaimer