T.RowePrice

AUSTRALIAN UNIT TRUST PORTFOLIO UPDATE

# T. Rowe Price Global High Income Fund – S Class

*As of 31 January 2024*

| Portfolio Management Team: | Managed Fund Since: | Joined Firm: |
|---|---|---|
| Michael Della Vedova | 2020 | 2009 |
| Michael Connelly | 2020 | 2005 |
| Samy Muaddi | 2020 | 2006 |

## INVESTMENT OBJECTIVE

The investment objective of the Fund is to seek high current income and capital appreciation primarily through investment in global fixed income securities rated below investment grade. The Fund also seeks global diversification by targeting North American, European and emerging markets high yield corporate issuers.

## TOP 10 ISSUE EXPOSURE[1]

| | % of Fund |
|---|---|
| Petroleos Mexicanos | 2.5 |
| Teva Pharmaceutical Industries | 1.7 |
| Carnival | 1.7 |
| Verisure Midholding | 1.5 |
| Venture Global LNG | 1.5 |
| Merlin Entertainments | 1.4 |
| HTA Group Ltd/Mauritius | 1.4 |
| UKG | 1.3 |
| Vmed O2 UK | 1.2 |
| Loxam SAS | 1.1 |

## REGIONAL DIVERSIFICATION (%)

| | % of Fund | ICE BofA Global High Yield Index |
|---|---|---|
| North America | 51.3 | 57.7 |
| Europe | 29.0 | 25.0 |
| Latin America | 12.6 | 9.2 |
| Middle East & Africa | 5.9 | 3.1 |
| Pacific Ex Japan | 1.4 | 3.6 |
| Japan | 0.0 | 0.7 |

## PORTFOLIO CHARACTERISTICS[2,3]

| | Fund | ICE BofA Global High Yield Index |
|---|---|---|
| Number of Holdings | 203 | 3,205 |
| Weighted Average Coupon | 6.51% | 5.72% |
| Weighted Average Maturity | 5.65 Years | 4.73 Years |
| Current Yield[5] | 6.86% | 6.19% |
| Yield to Maturity | 7.90% | 7.81% |
| Spread to Worst | 429 bps | 400 bps |
| Average Credit Quality[6] | B+ | BB- |

# Represented by the number of holdings of the underlying component portfolios - Global High Income Bond.

## PERFORMANCE

| | One Month | Three Months | Year-to-Date | One Year | Three Years | Annualised Since Share Class Inception 4 May 2020 |
|---|---|---|---|---|---|---|
| T. Rowe Price Global High Income Fund – S Class (Net - AUD)* | 0.40% | 7.24% | 0.40% | 8.47% | -0.72% | 3.83% |
| ICE BofA Global High Yield Index (AUD Hedged) | 0.35 | 7.65 | 0.35 | 7.50 | -0.10 | 4.39 |
| Value Added (Net)[4] | 0.05 | -0.41 | 0.05 | 0.97 | -0.62 | -0.56 |

**Past performance is not a reliable indicator of future performance.**

Source for performance: T. Rowe Price.

* Net-of-fees performance is based on end-of-month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions.

Figures include changes in principal value. Investment return and principal value will vary, and an account may be worth more or less at termination than at inception. For further details, please refer to the Fund's Product Disclosure Statement and Reference Guide which are available from Equity Trustees or TRPAU.

1 Issuer exposure is based on the underlying component portfolios of the Fund and does not take into account derivative exposure. Consult the portfolio holdings report for a listing of all securities owned in the portfolio.

2 Calculated using the underlying component portfolios of the Fund plus exposure from derivative instruments.

3 Calculated using the individual credit quality ratings for the underlying component portfolios of the Fund and without the impact from derivative instruments.

4 The Value Added is shown as the Fund (Net) minus its Index.

5 The current yield reflects the market-weighted average of coupon divided by price per security.

6 Average Credit Quality is calculated by averaging the Moody's weighted average quality and the S&P weighted average quality (50/50 split), regardless of the % of the portfolio actually rated by each of these ratings agencies.

## INDUSTRY DIVERSIFICATION (%)

| | % of Fund | ICE BofA Global High Yield Index |
|---|---|---|
| Energy | 14.21 | 13.71 |
| Financial | 11.70 | 11.95 |
| Cable Operators | 8.57 | 3.12 |
| Services | 8.54 | 5.58 |
| Entertainment & Leisure | 7.05 | 2.62 |
| Healthcare | 6.40 | 7.06 |
| Broadcasting | 5.91 | 2.04 |
| Automotives | 4.84 | 3.16 |
| Wireless Communications | 4.72 | 1.03 |
| Information Technology | 3.27 | 4.39 |

### MARKET REVIEW

In Australian dollar terms, high yield bonds marginally advanced in January following two months of strong gains as healthy economic data tempered expectations for aggressive Federal Reserve interest rate cuts in 2024. Investors seemed unsure how policymakers would weigh progress in lowering inflation against signs of continued tightness in the labor market and positive surprises in many other economic signals. The potential for dollar price appreciation supported the performance of CCC rated bonds, which outpaced higher qualities, and most below investment-grade industries recorded gains.

After starting the year at 3.88%, the yield of the benchmark 10-year U.S. Treasury note rose as high as 4.15% before retreating to 3.99% by month-end. The University of Michigan's preliminary report showed that its index of consumer sentiment jumped in January to its highest level in nearly three years and by the most since 2005. Consumer prices rose 0.3% in December, a tick above expectations, while producer prices fell another 0.1%. The core personal expenditures price index, the Fed's preferred inflation gauge rose 2.9% for the year ended in December, still above the Fed's 2% target, but below expectations and the lowest since February 2021. At its meeting on the last day of the month, the Fed, as expected, held rates steady but revised its policy statement to indicate that its next move will likely be a rate cut. However, Fed Chair Jerome Powell said at his post-meeting press conference that it is unlikely that the Fed will have enough confidence that inflation has returned sustainably to the 2% level to begin cutting rates at its next meeting in March.

The European Central Bank (ECB) left its key deposit rate at a record high of 4%, as expected. A more dovish outlook on the economy—the meeting statement said "risks to economic growth remained tilted to the downside"—and a softer tone to comments by ECB President Christine Lagarde raised hopes of a shift to easier policy. She said the "disinflationary process is working" and wage growth was declining, but policymakers had to be more confident that inflation was subsiding before reducing rates.

Economic data indicated that growth in the eurozone and the UK was more resilient than expected. The euro area avoided a recession in the final quarter of last year as growth in Italy and Spain offset a decline in Germany and stagnation in France. Overall gross domestic product (GDP) rose 0.1% sequentially, after flatlining in the July-September period. Still, GDP increased a mere 0.5% in 2023, dropping from 3.4% in 2022. The UK economy grew a stronger-than-forecast 0.3% in November, reversing a decline of the same magnitude in October, thanks to strong gains in services and industrial businesses.

In the developing world, China's GDP expanded 5.2% in the fourth quarter over a year earlier and for the full year of 2023, meeting Beijing's official annual growth target. On a quarterly basis, the economy grew 1.0%, up from the third quarter's 0.8% expansion. However, persistent deflationary pressures weighed on sentiment. The consumer price index declined 0.3% in December from the prior-year period, the third consecutive monthly decline. The producer price index fell 2.7% from a year ago, which marked the 15th monthly drop.

### FUND REVIEW

Credit selection in the services segment contributed, partly due to Ascend Learning, which provides online educational content, software and analytics serving institutions, students and employers in health care and other licensure-driven professions. In our view, the company has an attractive business model, growth tailwinds in several key end markets, and should be relatively defensive in the event of an economic downturn.

Our off-benchmark allocation to bank loans, which outperformed high yield bonds during the period, aided relative performance. Investors dialing back expectations for rate cuts in 2024, due in part to some strong economic signals, was supportive for the loan asset class.

The portfolio's zero weight in First Quantum Minerals (FMCN), which explores for, mines, and produces copper cathode, copper in concentrate, and gold, weighed on relative results in the metals and mining segment. In late 2023, an operating agreement was reached between FMCN and the Panamanian government for the company's Cobre Panama mine at higher taxes and royalties than the initial concessions and the terms were signed into law. Although the mine currently remains closed due to widespread public protests, the bonds traded higher amid investors' optimism that an agreement can be reached—perhaps after the country's presidential elections in May—to resume operations at the mine. We believe, however, that the probability of the mine producing any meaningful output in 2024 remains low.

Our significant overweight among cable operators dragged, as the segment underperformed all other industries in the benchmark during January. Credit selection within the industry added value, however, and partly offset the negative allocation impact.

### OUTLOOK

Despite the fourth-quarter rally, we remain bullish on the high yield asset class. Even with the strong performance seen across sovereigns, investment-grade bonds, and equities, we believe that high yield continues to represent good value on a yield basis relative to other asset classes.

Although yields in the 7.5% to 8.0% range appear somewhat low compared with the highs of around 9% at the end of October, they remain attractive relative to the yields seen during a longer period of recent history. Since 2013, yields have only been above 6% during the current inflation-driven cycle, the 2020 coronavirus pandemic sell-off, and the early 2016 commodity price crash. Furthermore, yields are only roughly 50 basis points* lower than they were in January 2023 when there was consensus regarding attractive valuations.

High yield issuers' fundamentals remain strong. Most firms have healthy levels of cash relative to debt on their balance sheets due to the period of ultra-low interest rates and the 2020-2021 refinancing wave, which mitigates the need for companies to issue bonds this year at higher yields.

*A basis point is 0.01 percentage points.

## CONTACT US

For more information about the Fund, please contact our Relationship Management team on 02 8667 5700 or visit www.troweprice.com.au

The Management Fee for the T. Rowe Price Global High Income Fund (S Class) is 0.77% p.a. and the Indirect Cost is 0.10% p.a. The indirect costs component is based on a reasonable estimate of the costs for the current financial year to date, adjusted to reflect a 12 month period. Full details of other fees and charges are available within the Fund's Product Disclosure Statement and Reference Guide.

## ADDITIONAL DISCLOSURES

Unless indicated otherwise the source of all data is T. Rowe Price.

Weighted Average Maturity is an average of the maturities of the underlying bonds, with each bond's maturity weighted by the percentage of fund assets it represents. Weighted Average Effective Duration is a calculation that seeks to measure the price sensitivity of a bond fund to changes in interest rates. In general, the longer the average maturity or duration, the greater the fund's sensitivity to interest rates. Duration is a better indicator of price sensitivity because it takes into account the time value of cash flows.

T. Rowe Price uses a custom structure for sector and industry reporting for this product.

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Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, all data is as of the report production date.

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A Target Market Determination for each T. Rowe Price Australian Unit Trust (or class of units in a Trust) is available here (www.eqt.com.au/insto [eqt.com.au]). A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who the financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where Equity Trustees Limited, the responsible entity of the T. Rowe Price Australian Unit Trusts may need to review the Target Market Determination for the financial product.

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