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## The Anaxis management team describes two recent examples of core portfolio investments that illustrate the relevance of the Anaxis Short Duration fund's strategy.

Arqiva is an excellent example of issuers that we like for our short duration strategy, and which form the core of our portfolio. This company has a stable business model and recurrent cash flows. It is a UK telecom infrastructure operator benefiting from exclusive broadcast rights in the United Kingdom, and from several long-term contracts with telecom operators such as Vodafone, British Telecom and Virgin Media. Visibility over its income is therefore high: more than 80% of Arqiva's revenue is recurrent.

Even more interestingly, free cash flow generation is also relatively stable, accounting for around 10% to 15% of Arqiva's gross debt in each of the last four years. We bought this bond shortly after it was issued at the end of 2018, and have strengthened our position of late. Over the past 18 months, the bond has been trading within a fairly tight range of 100 to 108.

The main advantage of this position for our strategy is the accrued coupon, which is relatively high at 6.375%. Since we first invested at the end of 2018, we have thus accrued a total coupon of more than 9% on this position. The issuer's first call date is in September 2020 and the bond is currently fluctuating just above its first call price. The position makes up around 0.93% of the portfolio.

Another example of our short duration core portfolio is Warner Music Group, one of the biggest record labels, which has signed such famous artists as David Guetta, Madonna, Prince and Coldplay. This is another example of a company whose income and cash flows are quite resilient. The group is benefiting from the explosion of online music buying through legal streaming. Until recently, Warner Music also held a stake in streaming platform Spotify.

WMG's income is relatively stable as it comprises a percentage that the platforms pay whenever someone listens to a song in their catalogue. Moreover, the lockdown period that we have been experiencing of late has had very little impact on music consumption. This issuer's cost structure is almost completely variable, which is highly advantageous, with capital expenditure limited to IT infrastructure, which costs very little. Over the last four years, Warner Music has delivered a positive cash flow worth between 10% and 17% of gross debt, which is fairly high for this sector.

As regards the performance of the 4.125% 2024 bond since the beginning of 2019, its price has started to move towards the first call price, at 103. During the worst of the COVID-19 crisis, the bond was briefly trading close to par but it soon converged with the call price again once the peak had passed.

These two examples offer a good illustration of the strategy that the Anaxis management team has adopted for its Anaxis Short Duration fund to produce a return on corporate bonds while minimising risks.

**ARQIVA 6.375% 2023**

- **Arqiva**, British telecommunications infrastructure operator (16,000 towers)
- Monopoly in the audiovisual broadcasting sector
- Long-term indexed contracts (10 years on average) with clients such as Vodafone, BT, O2, Virgin Media, BBC, ITV, Sky...
- Strong visibility on future revenues
- Estimated gross debt at the end of 2019: £2.88bn
- Portfolio weight: 0.93%



**WMG 4.125% 2024**

- **Warner Music Group (WMG)** is one of the leading music publishing groups
- WMG benefits from the explosion in revenues from music streaming and until recently it was a shareholder of the Spotify platform
- Among the artists produced by WMG: Coldplay, David Guetta, Madonna, Prince, Ed Sheeran,...
- Variable cost structure with low requirements in terms of capex
- Portfolio weight: 0.95%



	2016	2017	2018	2019
Revenues	3246	3576	4005	4475
EBITDA	507	473	478	625
FCF	323	491	351	296
FCF / Gross debt	11%	17%	12%	10%



**About Anaxis Asset Management**

Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.

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