

BARINGS GLOBAL SHORT DURATION HIGH YIELD FUND

Form N-CSRS

September 07, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-22562**

**Barings Global Short Duration High Yield Fund**

**(Exact name of registrant as specified in charter)**

**300 South Tryon Street, Suite 2500, Charlotte, NC 28202**

**(Address of principal executive offices) (Zip code)**

**Janice M. Bishop**

**Secretary and Chief Legal Officer**

**c/o Barings LLC**

**Independence Wharf**

**470 Atlantic Avenue**

**Boston, MA 02210**

**(Name and address of agent for service)**

**704-805-7200**

**Registrant's telephone number, including area code**

**Date of fiscal year end: December 31, 2018**

**Date of reporting period: June 30, 2018**

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**Item 1. Reports to Stockholders.**

**BARINGS GLOBAL SHORT DURATION HIGH YIELD FUND**

Semi-Annual Report

June 30, 2018

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**Barings Global Short Duration High Yield Fund**

**c/o Barings LLC**

**300 S Tryon St.**

**Suite 2500**

**Charlotte, NC 28202**

**704.805.7200**

**<http://www.Barrings.com/bgh>**

**ADVISER**

**Barings LLC**

**300 S Tryon St.**

**Suite 2500**

**Charlotte, NC 28202**

**SUB-ADVISOR**

**Barings Global Advisers Limited**

**61 Aldwych**

**London, UK**

**WC2B4AE**

**COUNSEL TO THE FUND**

**Ropes & Gray LLP**

**Prudential Tower**

**800 Boylston Street**

**Boston, Massachusetts 02110**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Deloitte & Touche LLP**

**30 Rockefeller Plaza**

**New York, NY 10112**

**CUSTODIAN**

**US Bank**

**MK-WI-S302**

**1555 N. River Center Drive**

**Milwaukee, WI 53212**

**TRANSFER AGENT & REGISTRAR**

**U.S. Bancorp Fund Services, LLC**

**615 E. Michigan St.**

**Milwaukee, WI 53202**

**FUND ADMINISTRATION/ACCOUNTING**

**U.S. Bancorp Fund Services, LLC**

**615 E. Michigan St.**

**Milwaukee, WI 53202**

## **PROXY VOTING POLICIES & PROCEDURES**

The Trustees of Barings Global Short Duration High Yield Fund (the **Fund**) have delegated proxy voting responsibilities relating to the voting of securities held by the Fund to Barings LLC ( **Barings** ). A description of Barings' proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 1-866-399-1516; (2) on the Fund's website at <http://www.barings.com/bgh>; and (3) on the U.S. Securities and Exchange Commission's ( **SEC** ) website at <http://www.sec.gov>.

## **FORM N-Q**

The Fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. This information is available (1) on the SEC's website at <http://www.sec.gov>; and (2) at the SEC's Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available on the Fund's website at <http://www.barings.com/bgh> or upon request by calling, toll-free, 1-866-399-1516.

## **CERTIFICATIONS**

**The Fund's President has submitted to the NYSE the annual CEO Certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.**

## **LEGAL MATTERS**

**The Fund has entered into contractual arrangements with an investment adviser, transfer agent and custodian (collectively service providers ) who each provide services to the Fund. Shareholders are not parties to, or intended beneficiaries of, these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the Fund.**

**Under the Fund's Bylaws, any claims asserted against or on behalf of the Fund, including claims against Trustees and officers must be brought in courts located within the Commonwealth of Massachusetts.**

**The Fund's registration statement and this shareholder report are not contracts between the Fund and its shareholders and do not give rise to any contractual rights or obligations or any shareholder rights other than any rights conferred explicitly by federal or state securities laws that may not be waived.**

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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

**OFFICERS OF THE FUND**

Sean Feeley

*President*

Carlene Pollock

*Chief Financial Officer*

Lesley Mastandrea

*Treasurer*

Michael Freno

*Vice President*

Scott Roth

*Vice President*

Melissa LaGrant

*Chief Compliance Officer*

Janice Bishop

*Secretary/Chief Legal Officer*

Michele Manha

*Assistant Secretary*

Kristin Goodchild

*Assistant Secretary*

**Barings Global Short Duration High Yield Fund is a closed-end investment company, first offered to the public in 2012, whose shares are traded on the New York Stock Exchange.**

**INVESTMENT OBJECTIVE & POLICY**

Barings Global Short Duration High Yield Fund (the Fund ) was organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company with its own investment objective. The Fund's common shares are listed on the New York Stock Exchange under the symbol BGH .

The Fund's primary investment objective is to seek as high a level of current income as the Adviser (as defined herein) determines is consistent with capital preservation. The Fund seeks capital appreciation as a secondary investment objective when consistent with its primary investment objective. There can be no assurance that the Fund will achieve its investment objectives.

The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield bond and loan markets and within capital structures between bonds and loans. For example, the Fund will seek to take advantage of differences in pricing between bonds and loans of an issuer denominated in U.S. dollars and substantially similar bonds and loans of the same issuer denominated in Euros, potentially allowing the Fund to achieve a higher relative return for the same credit risk exposure.



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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report (Unaudited)

**Dear Fellow Shareholders,**

We are pleased to provide you with the 2018 Semi-Annual Report for Barings Global Short Duration High Yield Fund (the Fund ) to recap portfolio performance and positioning. We would like to remind shareholders that we continue to believe our Global High Yield Investments Group is one of the largest teams in the market primarily focused on North American and Western European credits. Utilizing the Group's expertise, deep resources, and time-tested process, we continue to believe we can provide investors an attractive level of current income by uncovering compelling opportunities across the global high yield market.

The Fund's strategy still focuses primarily on North American and Western European high yield companies, with the flexibility to dynamically shift the geographical weighting in order to capture, in our opinion, the best risk-adjusted investment opportunities. In addition, the strategy also focuses closely on limiting the duration of the Fund while maintaining what we consider a reasonable amount of leverage.

**Market Review**

The first half of 2018 produced mixed returns in the global high yield markets. Stable credit fundamentals and moderate global economic growth continued to provide a favorable backdrop for the high yield market across both the U.S. and Europe. Inflationary indicators have also remained subdued though global trade tensions and political uncertainty left investors cautious during the first half of the year. Default rates remain historically low, as the fourth quarter 2017 and first quarter 2018 earnings seasons displayed solid balance sheet trends and reduced leverage profiles.

The U.S. high yield bond market finished the first half of 2018 with modest positive returns. The lower end of the ratings spectrum continued to outperform higher rated credits year-to-date. Specifically, CCC-rated holdings were the primary driver of positive performance followed by B-rated holdings, while BB-rated holdings were the laggard, generating negative returns during the period. Returns across industries have been relatively mixed. The telecommunications sector outperformed year-to-date followed by the health care sector, with both generating overall positive returns. The automotive sector was the notable laggard, surrounded by concerns of potential industry tariffs, followed by the consumer goods sector. U.S. high yield bond mutual funds saw outflows in the first half of the year totaling -\$27.3 billion while gross new issuance totaled \$126.3 billion. Net of refinancing new issuance stands at \$45.2 billion year-to-date. We believe that the overall fundamental picture remains stable as corporate balance sheets continue to show positive earnings and decreased leverage. The six month period ended with no default activity in June, leaving the default rate at a below average 1.98%.

The European high yield market saw modest negative returns in the first six months of the year following political volatility and uncertainty surrounding global trade and central bank policy. Performance was negative across ratings categories, with B-rated holdings outperforming, aided by their typically shorter-duration profiles, followed by CCC-rated holdings. BB-rated holdings were the most notable laggard. From an industry perspective, the technology sector and the consumer goods sector generated positive returns during the first half of the year, while the transportation sector and the telecommunications sector were the largest detractors. European high yield bond new issuance was stable during the period, with total gross new issuance totaling 44.3 billion year-to-date. B-rated new issues were the predominant source of new supply at 51%, followed by BB-rated issues at 44% and CCC-rated issues accounting for only 2%. European high yield bond mutual funds saw outflows totaling - 7.1 billion over the past six

months. However, corporate fundamentals remain stable and defaults remain below historical averages.

### **Barings Global Short Duration High Yield Fund Overview and Performance**

The Fund ended June with a portfolio of 154 issuers, which is a slight increase from the beginning of the year of 144 issuers. A majority of the issuers are domiciled in the U.S. (75.2%) with the U.K. (10.3%) and France (2.9%) representing the next largest country exposures – see Country Composition chart on page 4. From a geographic standpoint, exposure to U.S.-domiciled companies decreased marginally and exposure to foreign issuers increased over the past six months. While still predominantly allocated to the U.S. market, relative value opportunities in the Western European market have generally been more attractive over this time period and, as such, the Fund’s allocation was shifted accordingly.

As of June 30, 2018, the Fund remained well positioned across the credit quality spectrum: 15.6% BB-rated and above, 59.2% B-rated, and 14.8% CCC-rated and below, with just over 50% of the portfolio consisting of senior secured obligations.

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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report (Unaudited)

The credit quality of the Fund's underlying holdings changed slightly since the beginning of the year with a decrease in BB-rated and above credits, a modest increase in B-rated credits and a minor reduction in CCC-rated and below credits. Non-publicly rated securities and cash and accrued interest represented 7.5% and 3.0%, respectively.

The Fund paid six consecutive monthly dividend payments of \$0.1482 per share in the first half of 2018 after a slight decrease from the December dividend of \$0.1534, which we believe is still an attractive level of yield for a global short duration high yield bond fund. The Fund's share price and net asset value (NAV) ended the reporting period at \$18.78 and \$20.45, respectively, or at an 8.17% discount to NAV. Based on the Fund's share price and NAV on June 30, 2018, the Fund's market price and NAV distribution rates using the most recent monthly dividend, on an annualized basis, were 9.47% and 8.70%, respectively. Assets acquired through leverage, which represented 29.34% of the Fund's total assets at the end of June, were accretive to net investment income and benefited shareholders.

On a year-to-date basis through June 30, 2018, the NAV total return was 2.91%, outperforming the global high yield bond market as measured by the Bank of America/Merrill Lynch Non-Financial Developed Markets High Yield Constrained Index (HNDC), which returned -0.18%. From a market value perspective, the total return year-to-date through June 30, 2018 was 1.62%.

**Market Outlook**

We believe that the global high yield market continues to show positive economic growth driven by stable corporate earnings, low rates and supportive central bank policies. Currently, growth appears synchronized across the U.S. and Europe, however, there may be potential for this momentum to slow. First quarter earnings results reported by high yield issuers were similar to recent quarters with high yield issuers continuing to show revenue and EBITDA growth alongside modest leverage. In addition, interest coverage remains at or near all-time highs. Given these healthy interest coverage levels, we believe high yield issuers have ample cushion to withstand future interest rate increases. Defaults across the global high yield market are below historical averages and we believe will likely remain low in the near term. Broadly speaking, we believe high yield spreads are fairly compensating investors for the potential default risk in the market.

At Barings, we remain committed to focusing on corporate fundamentals as market sentiment can quickly change and happen unexpectedly. Our focused and disciplined approach emphasizes our fundamental bottom-up research with the goal of preserving investor capital while seeking to capture attractive capital appreciation opportunities that may exist through market and economic cycles. On behalf of the Barings team, we continue to take a long-term view of investing and look forward to helping you achieve your investment goals.

Sincerely,

Sean Feeley

1. Ratings are based on Moody's, S&P and Fitch. If securities are rated differently by the rating agencies, the higher rating is applied and all ratings are converted to the equivalent Moody's major rating category for purposes of the category shown. Credit ratings are based largely on the rating agency's investment analysis at the time of rating and the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition. The rating assigned to a security by a rating agency does not necessarily reflect its assessment of the volatility of a security's market value or of the liquidity of an investment in the security. Ratings of Baa3 or higher by Moody's and BBB- or higher by S&P and Fitch are considered to be investment grade quality.
  
2. **Past performance is not necessarily indicative of future results. Current performance may be lower or higher.** All performance is net of fees, which is inclusive of advisory fees, administrator fees and interest expenses.

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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report (Unaudited)

**PORTFOLIO COMPOSITION (% OF ASSETS\*)**

\*The percentages shown above represent a percentage of the assets as of June 30, 2018.

**COUNTRY COMPOSITION (% OF ASSETS\*)**

\*The percentages shown above represent a percentage of the assets as of June 30, 2018

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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

**STATEMENT OF ASSETS AND LIABILITIES**

(Unaudited)

	<b>JUNE 30, 2018</b>
<b>Assets</b>	
Investments, at fair value (cost \$592,559,916)	\$ 572,163,687
Cash	11,241,985
Foreign currency, at fair value (cost \$24,868)	24,878
Receivable for investments sold	6,253,915
Interest receivable	9,975,097
Unrealized appreciation on forward foreign exchange contracts	867,684
Prepaid expenses and other assets	34,638
<b>Total assets</b>	<b>600,561,884</b>
<b>Liabilities</b>	
Note payable	176,200,000
Dividend payable	2,972,573
Payable for investments purchased	10,466,214
Payable to adviser	475,448
Accrued expenses and other liabilities	285,334
<b>Total liabilities</b>	<b>190,399,569</b>
<b>Total net assets</b>	<b>\$ 410,162,315</b>
<b>Net Assets:</b>	
Common stock, \$0.00001 par value	\$ 201
Additional paid-in capital	464,598,900
Undistributed net investment income	1,861,443
Accumulated net realized loss	(36,724,117)
Net unrealized depreciation	(19,574,112)
<b>Total net assets</b>	<b>\$ 410,162,315</b>
Common shares issued and outstanding (unlimited shares authorized)	20,057,849

<b>Net asset value per share</b>	<b>\$</b>	<b>20.45</b>
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**See accompanying Notes to the Financial Statements.**



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## Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

**STATEMENT OF OPERATIONS**

(Unaudited)

	<b>PERIOD FROM JANUARY 1, 2018 THROUGH JUNE 30, 2018</b>
<b>Investment Income</b>	
Interest income	\$ 24,995,857
Other income	93,552
<b>Total investment income</b>	<b>25,089,409</b>
<b>Operating Expenses</b>	
Advisory fees	2,853,475
Interest expense	2,394,679
Administrator fees	249,734
Professional fees	89,678
Directors fees	58,565
Printing and mailing expense	42,611
Other operating expenses	77,577
<b>Total operating expenses</b>	<b>5,766,319</b>
<b>Net investment income</b>	<b>19,323,090</b>
<b>Realized and Unrealized Gains (Losses) on Investments</b>	
Net realized loss on investments	(7,268,124)
Net realized gain on forward foreign exchange contracts	738,096
Net realized gain on foreign currency and translation	49,055
Net realized loss on investments	(6,480,973)
Net change in unrealized depreciation of investments	(4,469,549)
Net change in unrealized appreciation of forward foreign exchange contracts	1,778,098
Net change in unrealized depreciation of foreign currency and translation	(76,499)
Net change in unrealized depreciation on investments	(2,767,950)

<b>Net realized and unrealized losses on investments</b>	<b>(9,248,923)</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 10,074,167</b>

**See accompanying Notes to the Financial Statements.**

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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

**STATEMENT OF CASH FLOWS**

(Unaudited)

	<b>PERIOD FROM JANUARY 1, 2018 THROUGH JUNE 30, 2018</b>
<b>Reconciliation of net increase in net assets resulting from operations to net cash used in operating activities</b>	
Net increase in net assets applicable to common shareholders resulting from operations	\$ 10,074,167
Adjustments to reconcile net increase in net assets applicable to common shareholders resulting from operations to net cash used in operating activities:	
Purchases of long-term investments	(177,992,926)
Proceeds from sales of long-term investments	154,516,525
Proceeds from sales of foreign currency, net	480,863
Forward currency exchange contracts, net	(1,778,098)
Net unrealized depreciation	4,476,986
Net realized loss	7,268,124
Amortization and accretion	(559,790)
Changes in operating assets and liabilities:	
Increase in interest receivable	(538,820)
Increase in prepaid expenses and other assets	(7,791)
Increase in receivable for investments sold	(6,253,915)
Increase in payable for investments purchased	5,867,900
Decrease in payable to Adviser	(9,087)
Decrease in accrued expenses and other liabilities	(65,368)
<b>Net cash used in operating activities</b>	<b>(4,521,230)</b>
<b>Cash Flows From Financing Activities</b>	
Advances from credit facility	36,000,000
Repayments on credit facility	(10,000,000)
Distributions paid to common shareholders	(17,939,740)
<b>Net cash provided by financing activities</b>	<b>8,060,260</b>
Net change in cash	3,539,030
Cash beginning of period	7,702,955

<b>Cash end of period</b>	<b>\$ 11,241,985</b>
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**Supplemental disclosure of cash flow information**

Income taxes paid	\$
Interest paid	2,297,724

**See accompanying Notes to the Financial Statements.**

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## Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

**STATEMENT OF CHANGES IN NET ASSETS**

(Unaudited)

	<b>PERIOD FROM JANUARY 1, 2018 THROUGH JUNE 30, 2018</b>	<b>YEAR ENDED DECEMBER 31, 2017</b>
<b>Operations</b>		
Net investment income	\$ 19,323,090	\$ 39,297,257
Net realized loss on investments	(6,480,973)	(5,180,818)
Net unrealized appreciation (depreciation) on investments	(2,767,950)	2,116,320
<b>Net increase in net assets resulting from operations</b>	<b>10,074,167</b>	<b>36,232,759</b>
<b>Dividends to Common Stockholders</b>		
Net investment income	(17,835,439)	(32,762,778)
Return of capital		(4,159,710)
<b>Total dividends to common stockholders</b>	<b>(17,835,439)</b>	<b>(36,922,488)</b>
<b>Total decrease in net assets</b>	<b>(7,761,272)</b>	<b>(689,729)</b>
<b>Net Assets</b>		
Beginning of period	417,923,587	418,613,316
<b>End of period</b>	<b>\$ 410,162,315</b>	<b>\$ 417,923,587</b>
Undistributed net investment income (dividends in excess of net investment income)	1,861,443	(19,983)

See accompanying Notes to the Financial Statements.



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Barings Global Short Duration High Yield Fund 2018 Semi-Annual Report

**FINANCIAL HIGHLIGHTS**

(Unaudited)

	<b>PERIOD FROM</b>					
	<b>JANUARY 1,</b>		<b>YEAR</b>	<b>YEAR</b>	<b>YEAR</b>	<b>YEAR</b>
	<b>2018</b>	<b>YEAR</b>	<b>ENDED</b>	<b>ENDED</b>	<b>ENDED</b>	<b>ENDED</b>
	<b>THROUGH</b>	<b>ENDED</b>	<b>DECEMBER 31,</b>	<b>DECEMBER 31,</b>	<b>DECEMBER 31,</b>	<b>DECEMBER 31,</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Per Common Share Data <sup>(1)</sup></b>						
Net asset value, beginning of period	\$ 20.84	\$ 20.87	\$ 18.47	\$ 22.00	\$ 25.24	\$ 24.30
Income from investment operations:						
Net investment income	0.98	1.77	1.57	1.90	2.12	2.05
Net realized and unrealized gains (losses) on investments	(0.48)	0.04	2.68	(3.23)	(2.76)	1.21
<b>Total increase (decrease) from investment operations</b>	<b>0.50</b>	<b>1.81</b>	<b>4.25</b>	<b>(1.33)</b>	<b>(0.64)</b>	<b>3.26</b>
Less dividends to common stockholders:						
Net investment income	(0.89)	(1.63)	(1.60)	(2.20)	(2.56)	(2.01)
Net realized gain					(0.04)	(0.31)
Return of capital		(0.21)	(0.25)			
<b>Total dividends to common stockholders</b>	<b>(0.89)</b>	<b>(1.84)</b>	<b>(1.85)</b>	<b>(2.20)</b>	<b>(2.60)</b>	<b>(2.32)</b>
Net asset value, end of period	\$ 20.45	\$ 20.84	\$ 20.87	\$ 18.47	\$ 22.00	\$ 25.24