

Fund Investment Report



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Fund Information

Fund objective

The Fund targets a positive investment return (absolute return) over a rolling 12 month period irrespective of market conditions. The Fund will use both long and short strategies; long investments aim to benefit from an increase in value of an underlying investment, while short investments aim to benefit from a decrease in value of an underlying investment.

Approach to ESG integration and stewardship

ESG integration and stewardship are integral to delivering sustainable returns. Through quantitative data and fundamental bottom-up research, we assess the absolute and change in ESG performance of companies. Engagement allows us to understand the effectiveness of their approach, the management of strategic issues and to exert positive influence.

Fund inception date	29 May 2015
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Fund value	USD85.89m
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Lead Fund Manager	Fraser Lundie
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Co-Fund Manager	Andrey Kuznetsov
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Base currency	USD
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Fund Commentary – Q2 2019

Market and Performance Review

There were a few interesting developments in the global macro environment in the second quarter of 2019. Markets have been supported by increasingly accommodative Central Banks and the hope of progress in trade tensions. The Federal Reserve decided not to cut interest rates at its June meeting but indicated there may be rate cuts ahead. ECB President Draghi hinted at further monetary policy easing if inflation outlooks fails to improve. UK securities performed well over the quarter despite Brexit related uncertainty and the resignation of Theresa May.

The technical picture remained strong. Even though net supply turned positive for the first time since the start of 2018 as the weaker loan market led to issuers tapping the bond market instead. This positive supply was well digested by the market given the tailwind from strong inflows into the asset class as credit is again in strong demand.

Credit markets drew support from the growing stock of negative yielding assets. Higher quality performed better than lower quality on the back of demand for credits that have means to withstand macro volatility. Emerging Market bonds also had a positive quarter benefitting from a more supportive monetary policy backdrop.

The main sources of absolute performance were Basic Industry, Banking and Energy. The main detractor over the quarter was from the Index trades. Individual names that contributed to the Strategy's positive performance over the period included Banking name Commerzbank, Basic Industry names Lennar and Technology name Dell. Individual detractors included Utility name NRG Energy, Basic Industry names Glencore and Syngenta.

From a ratings perspective BB and BBB names contributed the most to overall absolute performance. Geographically, absolute performance was driven from North America, the UK, Latin America and Western Europe.

Activity

During the quarter we increased our allocation to the Income bucket, particularly in Investment Grade, through names such as Telefonica and Verizon. In the Pair Trade bucket we added to our CDX IG and Rio Tinto trade. Credit curves remain steep, so we continued to optimise the Strategy's roll down by selectively extending the maturity of certain names, such as Suzano.

US homebuilders remain our top sector pick in US high yield and we continued to increase our allocation to the sector through Lennar in the Core Long strategy. In Financials, we added higher quality securities such as Commerzbank's newly issued AT1 (also part of the Core Long strategy).

Outlook

A dovish tone from the Central Banks across the globe and supportive comments from G-20 meeting improved investor confidence. Accommodative monetary policy is back on the agenda of the major central banks, this will increase the share of negative yielding assets, and will remain a tailwind for spread products. Better risk-adjusted return potential in Investment Grade and the higher-rated segment of High Yield credit given the slowdown in global economy.

Overall, we favour credits that are well positioned for macroeconomic weakness and have levers such as dividend cuts available to them.

Fund Characteristics

Duration (years)	1.11
Duration Times Spread (%)	56.08
Option Adjusted Spread (bps)	151
Average Rating	BBB
Average-Weighted Coupon (%)	3.84
No. Issuers	175
Concentration of Top Ten Positions (%)	38.86
Yield-to-Worst	3.22
Spread Duration (years)	2.33
Average Maturity (years)	2.19

With credit curves currently steep, we favour lending for longer over to stronger lenders. This is true in both High Yield and Investment Grade. Negative basis is at the very wide making cash more attractive than CDS in certain capital structures.

Convexity of the High Yield market got worse on the back of stronger performance in an environment of stable fundamentals and supportive technical backdrop. For High Yield portfolios it is becoming increasingly important to maximise the convexity by re-allocating capital away from negatively convex securities.

Performance Contribution – 1 Month

Top 10 Issuer Contributors to Total Return – Asset Level

	Contribution (bps)
Commerzbank	4
Enbridge	4
Telecom Italia	4
Clearway Energy	4
Petrobras	3
Enterprise Products	3
Ardagh Packaging	3
Allergan	2
Anglo American	2
EDF Energy	2

Top 10 Issuer Detractors to Total Return – Asset Level

	Contribution (bps)
Dell	-6
Prosecure	-3
AES Corp	-3
Syngenta	-2
American Axle	-2
Range Resources	-2
HSBC	-2
Ford	-1
Banca Monte dei Paschi di Siena	-1
Phoenix	-1

Sector Level

	Contribution (bps)
Basic Industry	12
Energy	10
Telecommunications	8
Capital Goods	7
Healthcare	5
Financial Services	5
Banking	5
Utility	3
Government	3
Media	2
Leisure	2
Insurance	1
Retail	1
Real Estate	1
Services	0
Consumer Goods	0
Transportation	0
ABS	0
Agency	0
Automotive	0
Index	-5
Technology & Electronics	-6

Regional Level

	Contribution (bps)
North America	21
Western Europe	13
Eastern Europe	5
United Kingdom	-1
Other Developed Markets	1
Emerging Markets	
Latin America	10
Asia	2
EMEA	4

Strategy Level

	Contribution (bps)
Core Long	50
Income - Quality	8
Income - Enhanced	6
Pair Trades	1
Income - YTC	1
Income - ABS	0
Income - Sov	0
Event Driven	0
Tactical	0
Core Short	-1
Curve	-3
Capital Structure	-4
TICS Bollinger	-6

Rating Level

	Contribution (bps)
AAA	1
AA	0
A	1
BBB	38
BB	9
B	8
CCC	-1
NR	1

Top 10 Issuers*

Market Weight

	Country	Sector	Rating	Weight (%)
Marks & Spencer	United Kingdom	Retail	BBB	4.77
ArcelorMittal	Luxembourg	Basic Industry	BBB	4.60
General Motors	United States	Automotive	BBB	4.57
Volkswagen	Germany	Automotive	A	4.53
CNH Industrial	United States	Capital Goods	BB	4.49
Telefonica	Colombia	Telecommunications	BB	4.22
Sprint	United States	Telecommunications	BBB	3.08
Heidelberg Cement	Germany	Basic Industry	BBB	3.01
AT&T	United States	Telecommunications	A	2.90
Hanesbrands	United States	Retail	BB	2.71

Spread Duration (SD)

	Country	Sector	Rating	SD (Years)
ArcelorMittal	Luxembourg	Basic Industry	BBB	0.15
CNH Industrial	United States	Capital Goods	BB	0.15
General Motors	United States	Automotive	BBB	0.14
Marks & Spencer	United Kingdom	Retail	BBB	0.14
Heidelberg Cement	Germany	Basic Industry	BBB	0.13
Volkswagen	Germany	Automotive	A	0.13
Telefonica	Colombia	Telecommunications	BB	0.13
Rothsay Life	United Kingdom	Insurance	BBB	0.11
Aircastle	United States	Financial Services	BBB	0.11
AerCap	United States	Financial Services	BB	0.11

Duration Times Spread (DTS)

	Country	Sector	Rating	DTS (%)
Rothsay Life	United Kingdom	Insurance	BBB	4.36
L Brands	United States	Retail	BB	3.26
Petroleos Mexicanos	Mexico	Energy	BBB	3.12
Phoenix	United Kingdom	Insurance	A	3.11
Suzano	Brazil	Basic Industry	BBB	2.68
Commerzbank	United States	Banking	A	2.66
Enbridge	Canada	Energy	BBB	2.33
Petrobras	Brazil	Energy	BB	2.12
Barclays	United Kingdom	Banking	A	2.10
Aircastle	United States	Financial Services	BBB	2.08

Strategy Allocation

	Weight (%)	SD (Years)	DTS (%)
Capital Structure	1.20	-0.10	-2.22
Core Long	56.31	2.89	83.15
Core Short	-31.14	-1.44	-16.25
Curve	-6.03	-0.19	-1.74
Event Driven	-2.83	-0.10	0.58
Income - ABS	3.06	0.01	0.11
Income - Enhanced	16.60	0.37	4.71
Income - Quality	61.18	1.75	11.02
Income - Sov	0.71	0.01	0.08
Income - YTC	1.24	0.04	0.86
Pair Trades	-0.71	-0.04	-1.49
Tactical	1.98	0.06	2.68
TICS Bollinger	-20.48	-1.01	-27.20

Maturity Spread

	Weight (%)	SD (Years)	DTS (%)
< 1 year	22.00	0.27	21.64
1-3 years	58.91	1.37	20.54
3-5 years	-25.16	-1.53	-61.34
5-7 years	13.57	0.37	28.07
7-10 years	20.31	0.98	50.94
10-15 years	4.22	0.30	12.66
15-20 years	2.12	0.18	7.94
20-25 years	0.83	0.09	4.12
25-30 years	2.08	0.25	11.92
> 30 years	1.13	0.06	3.51

Currency Allocation

	Weight (%)	SD (Years)	DTS (%)
EUR	15.64	-0.19	-22.95
GBP	17.05	0.51	30.27
USD	67.31	2.01	92.68

Regional Analysis

	Weight (%)	SD (Years)	DTS (%)
North America	45.07	1.25	52.68
Western Europe	6.73	-0.33	-20.00
Eastern Europe	3.45	0.10	5.31
United Kingdom	29.10	0.80	28.93
Other Developed Markets	1.05	-0.09	0.61
Emerging Markets			
Latin America	10.34	0.52	27.16
Asia	3.11	0.13	5.41
EMEA	0.82	-0.08	-0.31

Top 20 Country Analysis

	Weight (%)	SD (Years)	DTS (%)
United States	42.13	1.11	47.48
United Kingdom	29.10	0.80	28.93
Germany	14.26	0.39	8.00
Ireland	6.25	0.17	6.86
France	5.45	0.19	5.82
Spain	5.37	0.13	1.61
Brazil	5.06	0.26	14.43
Italy	4.32	0.12	6.53
Luxembourg	4.07	0.07	-1.07
Netherlands	4.02	0.10	3.66
Canada	2.94	0.14	5.20
Japan	2.77	0.01	0.10
Russia	2.69	0.08	3.80
Mexico	2.09	0.12	9.31
Colombia	1.84	0.05	1.84
India	1.63	0.05	3.16
Chile	0.93	0.05	1.15
Turkey	0.76	0.02	1.51
Belgium	0.68	0.02	1.11
Zambia	0.50	0.02	2.22

Ratings Analysis

	Weight (%)	SD (Years)	DTS (%)
AAA	4.56	0.10	2.79
AA	1.44	0.03	0.66
A	14.81	0.27	2.98
BBB	77.23	2.30	93.22
BB	3.11	-0.29	-6.05
B	2.60	0.01	5.24
CCC	0.14	0.01	1.63
NR	-3.89	-0.09	-0.47

Sector Analysis

	Weight (%)	SD (Years)	DTS (%)
ABS	7.37	0.11	3.00
Agency	0.36	0.01	0.29
Automotive	15.00	0.30	-0.92
Banking	14.99	0.43	25.09
Basic Industry	1.24	-0.08	13.20
Capital Goods	10.55	0.22	6.36
Consumer Goods	0.85	0.03	1.54
Energy	11.64	0.64	34.97
Financial Services	9.07	0.31	10.28
Government	4.26	0.17	2.87
Healthcare	6.95	0.20	7.83
Hedges	-20.39	-0.85	-46.80
Insurance	4.92	0.24	18.48
Leisure	3.14	0.04	2.24
Media	1.49	0.05	4.50
Real Estate	0.51	0.02	1.11
Retail	13.54	0.32	9.75
Services	-2.32	-0.10	-2.54
Technology & Electronics	-2.63	-0.09	-2.36
Telecommunications	22.83	0.51	9.32
Utility	-3.39	-0.15	1.79

All data as at 31 July 2019. Duration Times Spread (DTS) recognises that bonds with a longer duration, wider spread or both, have a higher beta and therefore greater contribution to index returns. All analysis figures relate to pure credit exposure, excluding cash and hedging.
Data Source: Hermes and Northern Trust.

Contact us:

If you have any general questions concerning your investment, or specifically related to the content of this Fund Investment Report, please let us know using the contact details below.

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