

Fund Investment Report



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Fund Information

Fund objective

The investment objective of the Fund is to generate capital growth and a high level of income over the long term, by primarily investing in debt instruments issued by companies (such as Bonds, Convertible Bonds, Asset Backed Securities, Bank Loans and Credit Default Swaps). The Fund is relatively "unconstrained" in nature and the portfolio holdings may vary greatly at different points depending on the market conditions.

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	30 May 2018
Fund value	USD439.96m
Lead Fund Manager	Fraser Lundie
Co-Fund Manager	Andrew Jackson
Base currency	USD

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, Energy and Banking. The main detractor over the quarter was from the Index trades and the options overlay. Individual names that contributed to the Fund's positive performance over the period included Basic Industry name Toll Brothers, Financial Services name AerCap and Energy name Enterprise Products. Individual names that detracted included Energy names Range Resources, Antero Resources and Petroleos Mexicanos.

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

Activity

During the quarter, we continued to reallocate some of our High Yield exposure towards Investment Grade corporates and Financials. As the convexity of the High Yield market deteriorated further, we reduced our exposure to securities trading above their call price, such as IQVIA, CSC Holdings and LKQ. With credit curves remaining steep, especially in investment-grade, we continued to rotate into longer dated securities where possible, such as in WPX Energy, Suzano and HCA Healthcare.

The persisting negative basis is a prevalent theme in the market at present. In order to manage it, we switched CDS positions into cash bonds to benefit from their better risk return profile in names such as Toll Brothers, Avis and Telecom Italia.

Given the very tight spreads on synthetic bonds, we initiated a short position on the iTraxx Crossover as part of the Fund's hedge bucket. We also added some short dated out of the money options on the CDX HY to improve the Fund's convexity profile.

Fund Characteristics

Duration (years)	2.99
Duration Times Spread (%)	95.44
Option Adjusted Spread (bps)	224
Average Rating	BBB
Average-Weighted Coupon (%)	4.75
No. Issuers	167
Concentration of Top Ten Positions (%)	20.28
Yield-to-Worst	3.75
Spread Duration (years)	4.74
Average Maturity (years)	11.99

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.

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.

The convexity of the High Yield market worsened on the back of stronger performance in an environment of stable fundamentals and a 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)
Enterprise Products	6
Enbridge	6
Petrobras	5
Telecom Italia	5
Ardagh Packaging	5
Allergan	4
EDF Energy	3
Anglo American	3
L Brands	3
Toll Brothers	3

Top 10 Issuer Detractors to Total Return – Asset Level

	Contribution (bps)
Range Resources	-4
Prosecure	-3
Antero Resources	-2
Banca Monte dei Paschi di Siena	-1
Hess	-1
Phoenix	-1
Canadian Natural Resources	-1
Fiat	0
HSBC	0
MPLX	0

Sector Level

	Contribution (bps)
Basic Industry	22
Energy	15
Telecommunications	10
Financial Services	8
Capital Goods	8
Healthcare	6
Utility	6
Banking	4
Insurance	4
Retail	3
Real Estate	3
Media	3
Automotive	2
Technology & Electronics	2
Government	2
Services	1
Leisure	1
Consumer Goods	0
ABS	0
Transportation	0
Agency	0
CLO	0
Index	-13

Regional Level

	Contribution (bps)
North America	41
Western Europe	17
Eastern Europe	6
United Kingdom	1
Other Developed Markets	2
Emerging Markets	
Latin America	15
Asia	2
EMEA	5

Strategy Level

	Contribution (bps)
High Yield	33
Investment Grade	22
Emerging Markets	18
Corporate Hybrid	12
Global Financials	12
Loan	2
Sovereign	1
ABS	1
Tactical	-1
Hedges	-6

Rating Level

	Contribution (bps)
AAA	0
AA	0
A	1
BBB	41
BB	37
B	9
CCC	-1
NR	1

CLO are incorporated within ABS at Strategy level. Cash and Futures are excluded from Sector Level, Rating Level & Regional Level. Contribution returns are end weight, provided in USD.

Data as at 31 July 2019. Data Source: Hermes and Northern Trust. Ratings shown may be sourced from Moody's, S&P, Fitch or Bloomberg.

Top 10 Issuers*

Market Weight

	Country	Sector	Rating	Weight (%)
BHP Billiton	Australia	Basic Industry	BBB	2.58
Aircastle	United States	Financial Services	BBB	2.41
Canadian Natural Resources	Canada	Energy	BBB	2.10
Enterprise Products	United States	Energy	BBB	2.06
Enbridge	Canada	Energy	BB	1.92
AerCap	Ireland	Financial Services	BB	1.89
CIT Group	United States	Banking	BB	1.87
Dell	United States	Technology & Electronics	BB	1.86
Toll Brothers	United States	Basic Industry	BB	1.81
General Motors	United States	Automotive	BB	1.79

Spread Duration (SD)

	Country	Sector	Rating	SD (Years)
Allergan	United States	Healthcare	BBB	0.17
Kinder Morgan	United States	Energy	BBB	0.17
Suzano	Brazil	Basic Industry	BBB	0.15
Hess	United States	Energy	BB	0.14
Enterprise Products	United States	Energy	BBB	0.13
Barclays	United Kingdom	Banking	BB	0.13
AerCap	Ireland	Financial Services	BB	0.13
MPLX	United States	Energy	BBB	0.13
HCA Holdings	United States	Healthcare	BB	0.12
Toll Brothers	United States	Basic Industry	BB	0.12

Duration Times Spread (DTS)

	Country	Sector	Rating	DTS (%)
L Brands	United States	Retail	BB	3.72
Suzano	Brazil	Basic Industry	BBB	3.50
Phoenix	United Kingdom	Insurance	BBB	3.45
Petroleos Mexicanos	Mexico	Energy	BB	3.10
Rothsay Life	United Kingdom	Insurance	BBB	3.01
Kinder Morgan	United States	Energy	BBB	2.82
Allergan	United States	Healthcare	BBB	2.67
Hess	United States	Energy	BB	2.65
Enterprise Products	United States	Energy	BBB	2.61
Enbridge	Canada	Energy	BB	2.48

Strategy Allocation

	Weight (%)	SD (Years)	DTS (%)
ABS	7.77	0.26	5.29
Corporate Hybrid	7.34	0.33	6.44
Emerging Markets	13.16	0.76	16.77
Global Financials	17.07	0.89	22.20
High Yield	27.39	1.37	32.10
Investment Grade	30.50	2.16	31.13
Hedges	-21.98	-1.09	-20.16
Loan	3.12	0.02	0.48
Sovereign	2.14	0.13	0.85
Tactical	-2.41	-0.13	-0.25

Maturity Spread

	Weight (%)	SD (Years)	DTS (%)
< 1 year	-13.43	0.34	12.97
1-3 years	4.04	0.05	0.55
3-5 years	-8.51	-0.61	-13.05
5-7 years	42.78	1.39	26.05
7-10 years	52.68	1.99	41.15
10-15 years	5.07	0.27	4.83
15-20 years	6.51	0.43	8.74
20-25 years	3.82	0.30	6.42
25-30 years	5.92	0.52	10.48
> 30 years	1.11	0.06	1.85

Currency Allocation

	Weight (%)	SD (Years)	DTS (%)
EUR	-19.41	-0.22	-1.27
GBP	26.27	0.83	21.37
USD	93.14	4.14	79.90

Regional Analysis

	Weight (%)	SD (Years)	DTS (%)
North America	63.09	2.96	56.53
Western Europe	-18.57	-0.28	-0.44
Eastern Europe	6.13	0.16	3.15
United Kingdom	21.95	0.84	19.26
Other Developed Markets	4.68	0.09	1.09
Emerging Markets			
Latin America	15.33	0.67	15.55
Asia	3.66	0.13	2.06
EMEA	3.38	0.16	2.74

Top 20 Country Analysis

	Weight (%)	SD (Years)	DTS (%)
United States	56.80	2.73	52.98
United Kingdom	21.95	0.84	19.26
Ireland	9.15	0.22	4.11
Brazil	8.17	0.41	9.49
Canada	6.29	0.24	3.55
France	5.35	0.17	4.17
Netherlands	4.84	0.09	2.07
Russia	4.63	0.12	1.84
Australia	4.04	0.07	0.93
Italy	3.89	0.11	3.09
Luxembourg	2.96	0.11	1.72
South Africa	2.84	0.15	1.99
Mexico	2.83	0.13	4.45
India	2.36	0.07	1.44
Colombia	2.09	0.06	1.09
Germany	2.02	0.04	1.06
Chile	1.82	0.04	0.37
Belgium	1.77	0.03	0.60
Turkey	1.50	0.04	1.32
Finland	1.15	0.07	1.95

Ratings Analysis

	Weight (%)	SD (Years)	DTS (%)
AAA	0.78	0.00	0.00
AA	1.59	0.03	0.22
A	8.20	0.32	5.42
BBB	62.95	2.41	45.26
BB	18.79	1.77	41.94
B	7.21	0.20	6.14
CCC	0.29	0.01	1.03
NR	0.20	0.00	0.00

Sector Analysis

	Weight (%)	SD (Years)	DTS (%)
ABS	9.48	0.26	5.54
Agency	0.36	0.01	0.09
Automotive	6.88	0.25	4.26
Banking	15.72	0.53	12.41
Basic Industry	26.17	1.09	22.21
Capital Goods	7.67	0.22	3.96
CLO	3.26	0.00	0.00
Consumer Goods	1.44	0.04	0.96
Energy	28.99	1.26	27.10
Financial Services	11.70	0.37	5.24
Government	2.42	0.12	0.80
Healthcare	6.90	0.31	5.43
Hedges	-67.78	-1.09	-21.13
Insurance	9.11	0.34	10.91
Leisure	1.51	0.02	0.78
Media	5.53	0.13	2.24
Real Estate	1.73	0.05	0.93
Retail	5.65	0.19	4.97
Services	1.31	0.04	0.95
Technology & Electronics	4.87	0.12	1.77
Telecommunications	10.84	0.32	6.41
Utility	6.22	0.18	4.15

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. Ratings shown may be sourced from Moody's, S&P, Fitch or Bloomberg.

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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