

Third Quarter Results as of September 30, 2019

Ohio University Student Fixed Income Management Group Traditional and Sustainable Portfolios

OUSFIMG Alumni,

The Sustainable portfolio had a total return of -0.12% over the third quarter which underperformed our benchmark, the Bloomberg Barclays US Aggregate Bond Index, by 0.14%. Over the same period, the Traditional portfolio had a total return of 0.15% outperforming by 0.13%. This puts our portfolio's total return for the year at -1.35% and -1.42% with an excess returns of 1.02% and 0.95% respectively.

The group continued to maintain its underweight duration strategy this quarter due to our expectations that rates continue to rise. This strategy continued to help the portfolios as each point on the Treasury yield curve moved out at least 19 basis points with the largest moves on the front of the yield curve indicating a bear flattener. The group currently expects a fourth rate hike by the Federal Reserve in December this year.

We have also begun to move into less cyclical corporate holdings because the group considers the economy to be near the top of the business cycle. At the beginning of the quarter we swapped out of Best Buy and into Walmart. Besides the shift to a less cyclical company, our thesis for this swap was to improve the Traditional portfolio's credit quality, add duration to reduce our underweight position from -17% to -8%, and because Best Buy had reached its spread target.

The underperformance of the Sustainable portfolio compared to the Traditional portfolio can largely be attributed to security selection. Selection in the Sustainable portfolio had a negative impact that was 19 basis points worse than the impact of selection in the Traditional portfolio. However, both portfolios benefitted relative to the benchmark from the positive impact of allocation and yield curve changes with the Traditional portfolio benefitting slightly more.

Regards,

Jacob McKee
VP of Portfolio Management