Fourth Quarter Results as of December 31, 2018

Ohio University Student Fixed Income Management Group
Traditional and Sustainable Portfolios

OUSFIMG Alumni,

Over the fourth quarter, the Sustainable portfolio had a total return of 1.34%, 0.21% less than our benchmark, The Bloomberg Barclays US Aggregate Bond Index which returned 1.55%. Over the same period, the Traditional portfolio had a total return of 1.095%, underperforming by 0.46%. This puts our portfolios' total returns for the year at 0.30% and 0.09% with excess returns of 0.38% and 0.16% respectively.

The group continued to maintain its underweight duration strategy this quarter due to our expectations that rates would continue to rise. This strategy hurt the portfolios throughout the quarter, as rates came in as much as 46 basis points in the 5 year space from 2.96% to 2.51%. The portfolios were underweight the 1 through 5 year key rate spaces which increased underperformance as the largest moves were on the front end of the yield curve. The group does not expect any interest rate hikes in 2019 and is positioning the portfolios' duration closer to the benchmark to mitigate tracking error.

Additionally, with the maturity of our Royal Dutch Shell bond in November, we invested the returned principal into treasuries, reducing our overall corporate exposure in the sustainable portfolio. In the Traditional portfolio, we swapped out of HP Inc. in favor of Anheuser-Busch to increase our duration and credit rating while still maintaining yield. In the Sustainable portfolio, we swapped the J.M Smucker Company and Apple for FedEx and Activision Blizzard as both J.M Smucker and Apple reached their target spread. The thesis behind FedEx was based on the expectation that the company will further capitalize on the explosion of E-commerce and receiving higher compensation relative to its biggest competitor, UPS. On the other hand, the Activision Blizzard thesis included sustaining its dominant position in the gaming industry, expansion into new markets, and its attractive yield relative to industry peers.

In summation, the underperformance in both portfolios this quarter can largely be attributed to asset allocation which had a negative impact on both the Traditional (-0.20%) and Sustainable (-0.22%) portfolios. However, the portfolios benefitted from security selection with both Traditional (+0.07%) and Sustainable (0.11%) outperforming in this area. Although, we saw aggregate underperformance in the fourth quarter, we ended 2018 outperforming the benchmark in both portfolios.

Regards,

Brandon Pearl
VP of Portfolio Management