First Quarter Results as of March 29, 2019

Ohio University Student Fixed Income Management Group
Traditional and Sustainable Portfolios

OUSFIMG Alumni,

Over the first quarter, the Sustainable portfolio had a total return of 2.85%, 0.11% less than our benchmark, The Bloomberg Barclays US Aggregate Bond Index which returned 2.94%. Over the same period, the Traditional portfolio had a total return of 3.05%, outperforming by 0.11%. This puts our portfolios' total returns for the year at 4.29% and 4.60% with excess returns of -0.19% and 0.12% respectively.

Over the first quarter, the group attempted to increase the overall duration of the portfolios to reduce tracking error. Relative to the Agg, the Sustainable portfolio moved from -0.27 to -0.31 years and the Traditional portfolio stayed the same at -0.37 years. In addition to reducing tracking error, the dovish remarks by the Fed should drive treasury yields down and thus benefit our portfolio. However, with only one trade in Sustainable and two trades in Traditional, we were unable to add the desired duration. This hurt the portfolios throughout the quarter, as rates came in 23 basis points in the 3-year space from 2.43% to 2.20%. The portfolios were underweight the 3, 5 and 10 year key rate spaces which increased underperformance as the largest moves were in these tenors. With the Fed not publicly forecasting their future monetary policy decisions, we do not feel comfortable taking a rates bet going into summer, so we are continuously trying to move into more highly rated corporate names and increase our duration to mitigate downside risk throughout the summer.

In the Sustainable portfolio, we swapped out of O'Reilly Automotive Inc. in favor of higher rated Sysco Corp to increase exposure to Consumer Staples and to hold a company that is committed to debt holders. In Traditional, we swapped Anheuser-Busch InBev for Booking Holdings Inc. and Walmart Corporation for Northrop Grumman Corporation. Booking Holdings was pitched on the thesis that it will outperform highly levered, Anheuser-Busch during a downturn, and that it was undervalued relative to their financial metrics. The thesis behind Northrop Grumman was that their financial metrics are well positioned to withstand a downturn, they are committed to de-leveraging their balance sheet, and they have higher recurring revenue than most Aero-space and defense companies as they are heavily invested in cyber-security.

In summation, the outperformance in the Traditional portfolio this quarter can largely be attributed to security selection, the active return attributed to individual securities, which had a positive impact of 0.16% while allocation, the over or underweighting of a grouping, had a negative impact of roughly -0.05%. Booking Holdings Inc. and Anheuser-Bush contributed the most to security selection with 0.11% and 0.16% respectively. In Sustainable, security selection caused us to underperform by -0.13% while Allocation had a positive impact of 0.11%.

Regards,

Brandon Pearl
VP of Portfolio Management