

Third Quarter Results as of September 30, 2019

Ohio University Student Fixed Income Management Group Traditional and Sustainable Portfolios

OUSFIMG Alumni,

Over the third quarter, the Sustainable portfolio had a total return of 2.45%, 0.18% more than our benchmark, The Bloomberg Barclays US Aggregate Bond Index which returned 2.27%. Over the same period, the Traditional portfolio had a total return of 2.70%, outperforming by 0.43%. This puts our portfolios total return for the year at 10.04% and 10.68% respectively with slight underperformance in the Sustainable portfolio of -0.26% and excess returns in the Traditional portfolio of 0.38%

Before leaving for summer break in May, the group implemented an increased duration strategy to benefit from falling interest rates and to reduce tracking error against the benchmark. Relative to the benchmark, the Sustainable portfolio moved from -0.53 to -0.11 years and the Traditional portfolio moved from -0.47 to -0.12 years. The added duration helped our portfolios outperform over the quarter as rates continued to fall. The portfolios were overweight the 7, 10, and 30 year key rates which came in 0.28%, 0.37%, and 0.44% respectively. We still see the potential for rates to fall as Fed talks indicate a possibility of further rate cuts. Additionally, as negative interest rate continue to impact developed nations, we expect continued demand for US bonds, thus driving up prices. Moving forward we hope to add highly rated corporate names to increase duration in line with our benchmark.

In the sustainable portfolio, we swapped ATVI '26 in favor of higher rated AAPL '27 to increase the portfolios credit rating and duration with a company that has ample cash to service debt. Additionally, we swapped FDX '28 with HUM '29 on the thesis that HUM '29 is undervalued against peers and provides substantial yield and duration over FDX '28. In the Traditional portfolio we swapped BKNG '26 with higher rated AMZN '27 as BKNG '26 reached its spread target and AMZN '27 provides many growth opportunities and ample cash to pay bond holders. Overall, the positioning added yield and duration to the portfolios and provides good positioning for our current strategy.

In summation, the outperformance in the Sustainable portfolio for the third quarter can largely be attributed to selection, the active return attributed to individual securities, which had a positive impact of 0.17% while allocation, the over or underweighting of a grouping, had a negative impact of roughly -0.01%. The BAC Floater was the biggest corporate outperformer, returning 3.75%. The outperformance in Traditional can also be attributed to selection which had a positive impact of 0.36% while allocation had a negative impact of -0.01%.

Regards,

Brandon Pearl
VP of Portfolio Management