Fourth Quarter Results as of December 30, 2019

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 -0.050%, 0.063% less than our benchmark, The Bloomberg Barclays US Aggregate Bond Index which returned 0.013%. Over the same period, the traditional portfolio had a total return of -0.027%, underperforming by 0.278%. This put our portfolios total return for 2019 at 8.58% and 9.10%, respectively, with a slight outperformance in the sustainable portfolio of 0.006% and excess returns in the traditional portfolio of 0.52%.

Over the course of the summer, our benchmark continued to add duration, leaving us significantly underweight by the start of the fall. Our general strategy was to continue to add yield and duration to reduce tracking error to the benchmark. At the start of the fourth quarter, the sustainable portfolio was underweight yield by 15 bps and duration by 0.37 years. The traditional portfolio was underweight yield by 22 bps and duration by 0.15 years.

In the sustainable portfolio, we swapped DG '23 in favor of higher rated PYPL '24 to slightly increase the portfolio's yield while also adding 0.9 years of duration. Additionally, ABBV 2.5 '20 was purchased upon the maturity of 200k worth of treasuries. This added 14 bps of yield, increased duration by 0.03 years, and increased corporate exposure from 33.13% to 39.19%. In the traditional portfolio we swapped T '29 with WMT '29. The rationale for this swap was to reduce credit risk by exiting the most indebted company in the world, and enter into WMT, a financially stable retailer with a proven recession-proof track record. This swap decreased yield by 7 bps and added .02 years of duration. FN MA3744, a mortgage backed security, was also added to both portfolios in exchange for lower yielding MBS. The fourth quarter swaps allowed us to pick up duration and yield, but not enough to significantly reduce tracking error.

Overall, the majority of our portfolios' underperformance during the fourth quarter came from movements in the treasury curve. Both portfolios had overweight duration positions on the 10 and 30 year tenors. Over the fourth quarter the 10 and 30 year treasury yields blew out 28 bps and 30 bps, respectively. The group had a very difficult time adding duration without taking large positions on the 10 and 30 year tenors. With high activity in the new issue market, the benchmark was adding new issues (and duration) too fast for us to catch up.

Our current strategy moving into the first quarter of 2020 is to take advantage of our duration gap by swapping into positions that add a significant amount of yield without compromising the credit quality of our portfolio. This strategy leaves us exposed to the long-end of the curve, but with current threats to global growth (Coronavirus, Eurozone manufacturing, etc.), we feel comfortable with this exposure in the short term.

Regards,

Kyle Cusick
VP of Portfolio Management