



OUSFIMG Portfolio Commentary

1st-3rd Quarter Results as of November 6, 2020

By Kyle Cusick, Audrey Bull, and Sam Ellis

OUSFIMG Alumni,

2020 has been a unique year for the fixed income group. We have been learning a lot as we navigate through a new virtual environment for the group. We have been meeting virtually multiple times a week since February, instead of having our traditional in-person meetings. We have also been accessing Bloomberg terminals remotely using the TeamViewer software. The group has not had access to terminal labs since spring break of last year. The limitations of the group became very evident in 2020 as well. During the height of the pandemic, the group essentially lost all broker coverage and was unable to add positions to the portfolio. This was especially problematic because the group was sitting on a significant amount of cash after treasury maturities and selling out of three corporate positions during the pandemic. The group attempted to add a handful of bonds in the spring, but every instance resulted in either bid-ask spreads far too wide for the group to accept, or no response from our trader at all. This led to the group sitting on a lot of cash over summer and underperforming the benchmark. Since returning to campus in the fall, the group has worked to repair the portfolio and put cash to work.

ESG Portfolio

Our sustainable portfolio has returned 4.79% year to date, underperforming the Bloomberg Barclays US Agg by 2.04% since the beginning of this year. Like our traditional portfolio, this under performance was driven by some portfolio liquidation back in March without being able to enter new positions because of scarcity which left us with a large cash allocation entering the summer break. As we entered the fall semester, we looked to pick up yield while staying underweight duration.

While we have underperformed in the corporate space, we have seen strong performance from AAPL (9.68%), HUM (11.31%), and PYPL (7.38). Our government debt returns have been a bright spot in our performance, outperforming the Agg by 52 basis points. Our longer tenured treasuries contributed greatly to this with the 2037, 2045, and 2048 returning 14.89%, 19.46%, and 20.05% respectively.

This semester we have used cash to purchase JNJ as a defensive move, JNPR to pick up yield, and VZ to take advantage of a perceived mispricing with the bond. We have also increased our securitized debt exposure, purchasing 50k of FN MA4017 and G2 MA6819.

Moving forward we are looking to increase our yield, stay underweight duration, and even out our key rates. Our next priority will be exiting HUM, given the democratic president elect.

Traditional Portfolio

Throughout the first three quarters of this unprecedented year in 2020, the traditional portfolio had a total return of 6.01% YTD, trailing our benchmark by 0.82%

Initially, the portfolio had large outperformance against the benchmark throughout the first five months of 2020. Much of this outperformance came at the beginning of the Covid-19 outbreak. Many of our defensive names, including WMT and AMZN, as well as our longer dated treasuries heavily outperformed the benchmark. However, at the start of June and throughout the summer, multiple positions matured and we were unable to move this cash in new positions, leaving the portfolio with over \$500,000 of cash at the beginning of this semester. This left the portfolio lacking the yield necessary to keep up with the benchmark as tracking error increased.

In the traditional portfolio during the third quarter, GS '22 was purchased to increase yield by 4 basis points in a low duration name with virtually no interest rate risk. Two mortgage backed securities were also



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purchased, G2 MA6819 and FN MA4017. These purchases added yield while reducing tracking error in securitized debt. These third quarter purchases allowed us to pick up much needed yield, but not enough to bring us within the benchmark's performance.

Our strategy moving into the fourth quarter of 2020 is to continue to pick up yield where we can by utilizing our remaining cash and swapping out of lower yielding more defensive names into higher yielding positions without heavily effecting the overall credit quality of the portfolio.