CQS Credit Multi Asset Fund

Review for Dorset Council Pension Fund

Q2 2019 update

SBai
Standards Board for Alternative Investments
SIGNATORY
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Summary

Portfolio Summary

- CMA's objective is to achieve a target return of Libor+4–5% p.a. with single digit volatility[1]
- CMA is a long-only, actively managed global credit portfolio
- Invests predominantly across Loans, High Yield and Financials, Asset Backed Securities and Convertible Bonds
- Maintains low interest rate duration (capped at two years) and does not use financial leverage[2]

Performance Update[3]

Annualised Return Since Inception (% p.a.)	Annualised Volatility Since Inception (%)	Sharpe Since Inception	Q2 2019 Return (%)
4.83%	2.19%	1.93	1.71%

Dorset Council Pension Fund's return on initial investment: **+5.12%** net (since 1 December 2017)

AUM in CMA: **£141.9m** as at 28 June 2019

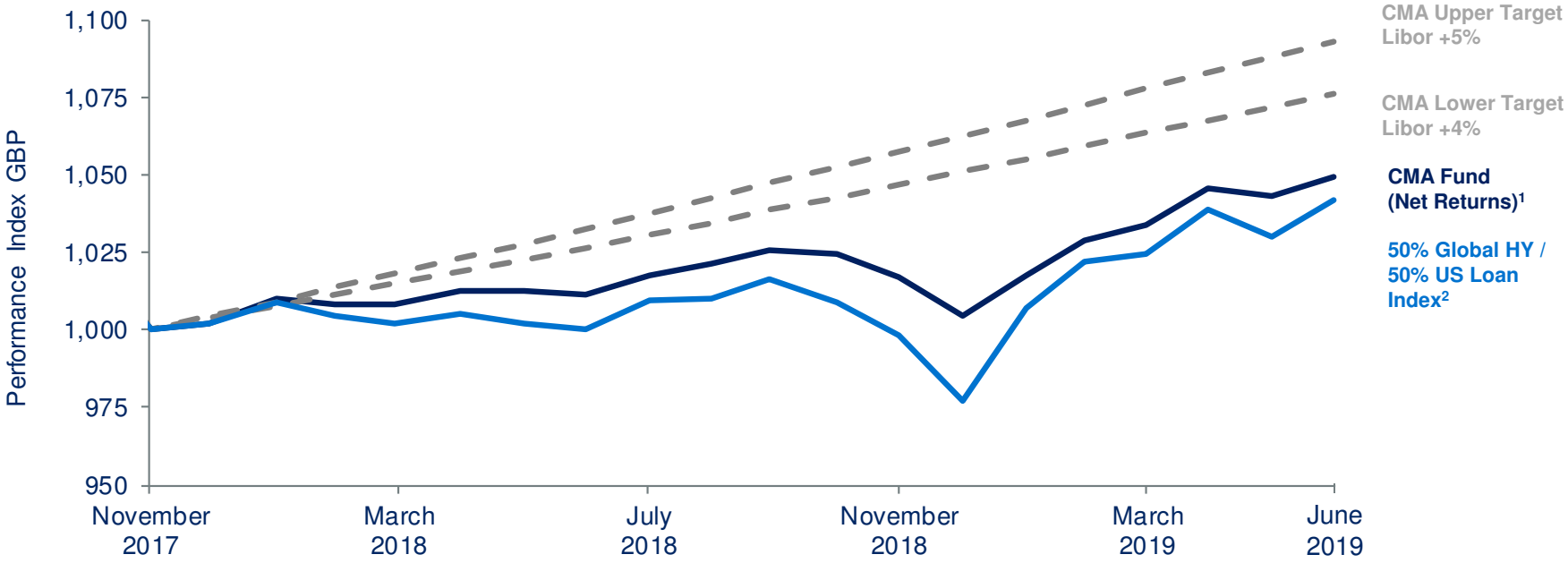
Q2 2019 Performance

- From a top-down perspective, our decision to increase exposure to high yield, particularly in the US, added value over the quarter following the strong performance of the asset class.
- Indeed, after adding to convertibles in June, the Fund's allocation to traditionally more volatile asset classes (i.e. convertibles and high yield bonds) is now close to a 3-year high. This circa 8.5% tactical reallocation from an all-time low in September reflects our desire to capture both idiosyncratic investment opportunities and some positive market sentiment. We are monitoring the portfolio positioning closely, while retaining circa 75% of the portfolio in traditionally less volatile asset classes.
- All asset classes contributed positively to returns, with mark-to-market gains supported by income. Loans led the way, contributing 0.71% to returns, with strong performances from both the US and European books. ABS contributed 0.47%, with European CLOs continuing to perform well, closely followed by High Yield, with a 0.44% contribution to return. As with the loans book, both Europe and the US contributed to returns. Financials contributed 0.14% and convertibles 0.10%, both strong relative to the size of the allocation, while investment grade contributed 0.01%.
- Looking at returns on a geographical basis, Europe slightly outperformed the US, with Europe contributing 1.02% and the US 0.85%. There was a small positive contribution from Asia.
- Looking at individual securities, no single security contributed a material loss to the Fund as a result of fundamental concerns. We remain highly diligent with respect to the fundamental performance of individual businesses.

Please note, returns reference the Performance Index GBP, a theoretical, non-investable share class which is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 28 June 2019. [1]Target returns are estimate and net of anticipated fees, expenses and income reinvested. They are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any target return can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Fund. Target returns are for illustrative purposes only. [2]Except when required for currency hedging purposes.[3]Returns represent the Performance Index GBP. Please refer to the end of the presentation for further details as to how this index is constituted. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

Performance Since Inception



	CYTD	Q2 2019	Last 12m	Since Investment 1 December 2017
CMA return (Net of fees, GBP)	4.47%	1.71%	3.80%	5.12%
Index return (Gross, GBP hedged)	6.63%	1.72%	4.19%	4.20%
LIBOR+4% (GBP)	2.39%	1.19%	4.83%	7.61%

Please note, the Performance Index GBP is based on a theoretical, non-investable share class. It is made up of a series of share classes in order to demonstrate the longest consistently available track record for the Fund. A breakdown of the index formulation is included at the end of the presentation.

Source: CQS as at 28 June 2019. [1]Returns reference the Performance Index GBP. [2]50/50 Index is a blended benchmark return comprising the US LLI (Leveraged Loan Index) and the Global High Yield Index (HW00) expressed in Hedged GBP terms. The index is included merely to show the general trends in the period indicated and is not intended to imply that CMA is similar to the index in composition or risk. This presentation includes historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up.

Investment Commentary – Q2 2019

CQS

Market background

- Credit markets continued to rally through Q2, with returns across the first half of the year as strong as they have been since 2009 for both high yield and loans.
- Spread compression has been evident, but so too has been the contribution from the rates markets in the light of accommodative central bank commentary. Inevitably, this has benefited fixed rate bonds more than floating-rate assets such as loans. Indeed, we estimate that 90% of US high yield index returns in Q2 came from rates.
- One of the consequences of this has been increased correlation been the major asset classes in recent months. More than 80% of major asset classes delivered a positive return in Q2 2019. This is something we are very aware of and monitoring closely.
- Looking through the asset classes, high yield registered a strong performance as we have said, with local currency returns of 2.57% from US high yield and 2.48% from European high yield. Loans were also positive, with a return of 1.68% in the US and 1.17% in Europe.
- Elsewhere, asset backed securities found continued demand for both the technically very well positioned RMBS and CRT areas of the market, while CLO issuance increased on the quarter. Financials returned 4.41% while convertibles returned 1.15%, helped by supportive equity markets, all in local currency terms.

Investment strategy and outlook

- We started the period with 51% in loans, 22% in ABS, 13% in high yield, just over 3% each in convertibles and financials, and 1% in investment grade credit. Unallocated capital was therefore just under 6%.
- We increased exposure to US high yield (from 7.3% to 10.7%) and to convertibles (from 3.5% to 5.0%) over the quarter, taking our allocation to these traditionally more volatile asset classes towards a 3-year high. This circa 8.5% tactical reallocation from an all-time low in September reflects our desire to capture both idiosyncratic opportunities and some positive market sentiment.
- Circa 75% of the portfolio remains in traditionally less volatile income-generating asset classes, forming a stable core to offset our increased allocation to high yield and convertibles.
- We took the decision to allocate away from our investment grade corporate strategy, having benefited from spread tightening in this area of the market, in favour of more attractive investment opportunities elsewhere.
- We ended the period with 50.5% in loans, 21% in ABS, a little over 17% in high yield, 5% in convertible bonds and just over 3% in financials. Unallocated capital was therefore just under 4%.
- As we look forward from here, we believe it is more important than ever to focus on the fundamentals. Market noise is contributing to rising correlation between asset classes. In our assessment, the real risks for long-term investors in credit are realised losses from defaults, which can be mitigated by thorough research, and the temptation to seek security in assets with a negative yield, which can have a very negative impact on returns as prices move back towards par. We remain highly diligent with respect to the fundamental performance of individual businesses, and discipline with respect to our investment process, principles and philosophy is essential.
- As we stand today, our target exposure to loans is approximately 50.00%, ABS is 22.25%, high yield is 17.00%, financials is 2.75% and our target exposure to convertibles is 5.50%. The target cash weighting, therefore, is 2.50%. The Fund's overall yield is currently 5.45% in Sterling terms at the end of June while circa 80% of the Fund remains invested in floating rate instruments.

Source: CQS as at 28 June 2019. The Fund may have since exited some or all of the positions detailed in the above commentary. Quoted Fund returns reference the Performance Index GBP. Investors should note the base currency of the Fund is in US dollars. All market data sourced from Bloomberg, MSCI, Barclays, BofA Merrill Lynch, Markit and UBS.