



CQS Credit Multi Asset Fund

Review for Dorset Council Pension Fund

Q4 2019

Signatory of:



All Investors should ensure that they have received and read the latest Offering Documentation and Prior-Investment Disclosure document which is available from CQS at clientservice@cqsm.com

Summary

Portfolio Summary

- CMA's objective is to achieve a target return of Libor+4–5% p.a. with single digit volatility¹
- 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 leverage²

Performance Update (E1 Share Class GBP)³

Annualised Return Since Inception (% p.a.)	Annualised Volatility Since Inception (%)	Sharpe Since Inception	Q4 2019 Return (%)
3.33	2.12	1.25	1.27

Dorset Council Pension Fund's return on initial investment:
+7.07% net (since 1 December 2017)

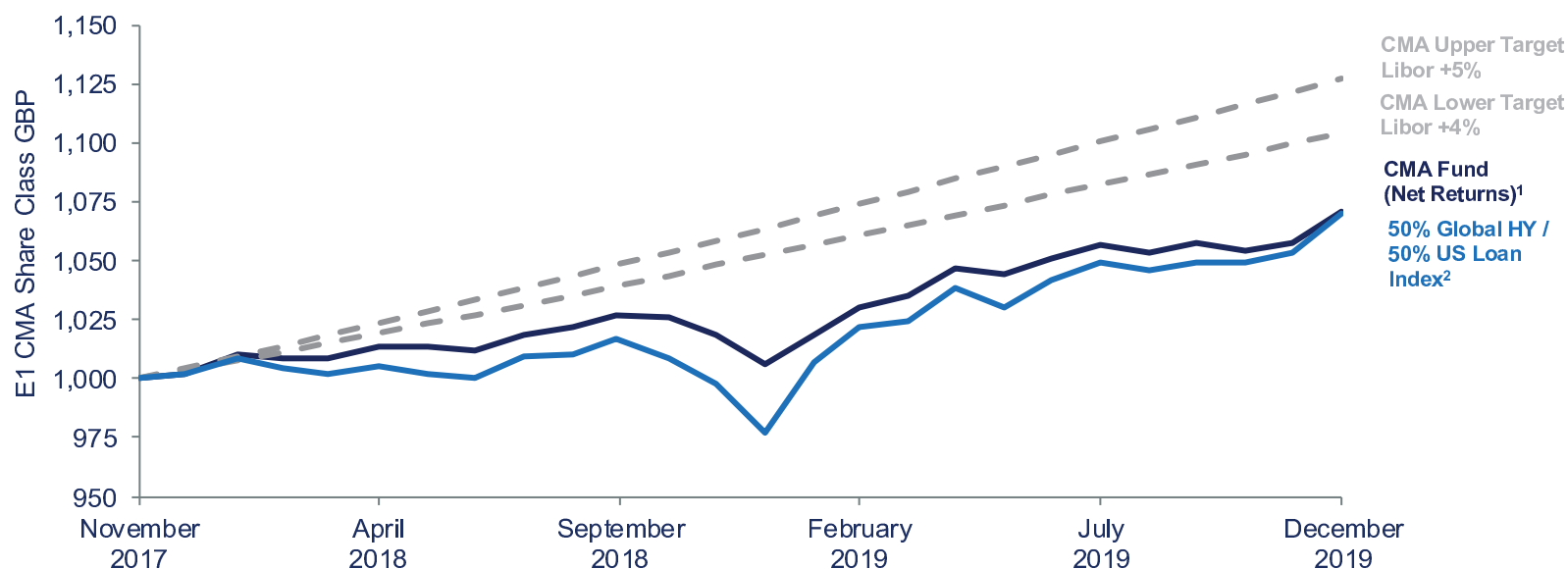
AUM in CMA: **£144.6m** as at 31 December 2019

Q4 2019 Performance

- All asset classes contributed positively to returns, with mark-to-market gains supported by income
- High yield led the way, with a strong contribution from the US, where the team capitalised on idiosyncratic opportunities. The European portfolio continued to reduce market beta while also contributing positively. Loans also contributed well, given the size of the allocation, with the majority of the contribution coming from the US and the rest from Europe. Market-to-market volatility increased notably during the quarter, led by idiosyncratic names in the US
- Strong performance from European CLOs led our ABS book, which remains part of the stable core of the portfolio, a relatively conservative income-generating asset class to offset exposure to higher beta assets. Convertibles and Financials were both positive, benefiting from the impetus given to equity markets during the period
- Just over half the returns by geography came from the US during the period, with the majority of the remainder coming from Europe. There was a small positive contribution to returns from Asia
- Whilst dispersion in performance will likely continue, we believe capital appreciation and active trading will support returns through 2020
- We retain a secured income-driven approach. We believe our allocations to EU Loans and parts of ABS should provide price stability, while our increased allocation to High Yield, particularly in the US, reflects active trading opportunities. We also see Investment Grade opportunities in Convertible bonds. While these do not provide income, they have potential to outperform in an environment of dispersion.

Source: CQS as at 31 December 2019. ¹Target returns are estimated 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. ²Except when required for currency hedging purposes. ³Returns represent E1 CMA Share Class GBP, inception date of 1 December 2017. 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	Q4 2019	Last 12m	Annualised Return Since Investment 1 December 2017
CMA return (Net of fees, GBP)	6.45%	1.27%	6.45%	3.33%
Index return (Gross, GBP hedged)	9.46%	1.92%	9.46%	3.29%
LIBOR+4% (GBP)	4.91%	1.20%	4.91%	4.87%

Source: CQS as at 31 December 2019. ¹Returns reference the E1 GBP Share class. ²50/50 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 – Q4 2019

Market background

- The quarter saw positive returns across sub-investment grade asset classes as markets experienced a “risk on” environment in the final months of the year. While this brought some spread compression in December, dispersion across sectors, ratings groups and geographies remains a key theme in sub-investment grade asset classes and a source of opportunity for 2020.
- Looking across the market, high yield bonds finished 2019 with another solid quarter, the US high yield market returning 2.61% and the European high yield market returning 2.12%. Loans were also positive, with US loans returning 1.73% and European loans (ex-currency) returning 0.53%.
- Elsewhere, the diverse asset backed securities asset class saw some market-to-market volatility across CLO liabilities, offset by continued spread compression in the US non-agency residential mortgage-backed securities. Convertibles returned 5.05%, with gains across the US, Europe and Asia, while Financials returned 4.36% after another quarter of very strong performance for subordinated financials.
- Looking through the asset classes we invest in, High Yield led the way, with a strong contribution of 0.57% gross of fees. While the US book capitalised on idiosyncratic opportunities, the European portfolio continued to reduce market beta while also contributing positively.
- Loans contributed well, given the size of the allocation, with the majority of the contribution of 0.33% gross of fees coming from the US and the rest from Europe. Market-to-market volatility increased notably during the quarter, led by idiosyncratic names in the US.
- Strong performance from European CLOs led our ABS book, which remains part of the stable core of the portfolio. ABS contributed 0.20% gross of fees during the quarter. Finally, Financials and Convertibles were both positive, contributing 0.20% and 0.16% respectively gross of fees.
- Just over half the returns by geography came from the US during the period, with the majority of the remainder coming from Europe. There was a small positive contribution to returns from Asia.

Investment strategy and outlook

- We started the period with just over 47% in Loans, just under 22% in ABS, 19.5% in High Yield, just over 5% in Convertibles and just under 4% in Financials. Unallocated capital was therefore just over 2%.
- We increased exposure to High Yield through the quarter, with an increased tilt to the US to capture high beta/catalyst driven trades, as the US lagged Europe in November and we expect more compression to follow in the US. We balanced this by slightly reducing exposure to US loans towards the end of the period and reducing exposure to Financials as we took profit on high conviction names and de-risked, mainly in UK financials.
- Whilst dispersion in performance of underlying credits will likely continue, and we anticipate pricing pressure on selective assets, we believe capital appreciation and active trading can bolster returns into 2020.
- The portfolio retains its secured income-driven approach, with a high allocation to Senior Secured Loans and secured ABS. We anticipate our allocations to EU Loans and parts of ABS will continue to provide forward-looking price stability overall.
- Our increased allocation to High Yield (particularly in the US) reflects active trading opportunities. In addition, our US Loan book contains potential net capital appreciation opportunities in lower B rated credits which have been technically oversold.
- Finally, we see Investment Grade opportunities in Convertible bonds. While these do not provide income, they have potential to outperform in an environment of dispersion.
- As we stand today, our target exposure to loans is approximately 45.00%, ABS is 21.00%, high yield is 22.25%, financials is 3.50% and our target exposure to convertibles is 6.00%. The target cash weighting, therefore, is 2.25%
- Against this backdrop, the Fund's overall yield is currently 5.39% in Sterling terms at the end of December while circa 75% of the Fund remains invested in floating rate instruments.