VIDEO INTERVIEW TRANSCRIPT – RECORDED 20/08/2019

The Strategic Bond Opportunities Fund: An Overview

What is the strategy and philosophy of the Fund?

Eric Vanraes
Portfolio Manager
Biography

The strategy and the philosophy of the **Strategic Bond Opportunities Fund** is very clear. We tried to seize some opportunities in different bond markets. It means that we base our strategy on four different pillars.

The first pillar, and the most important, being the US Treasury market. Then we focus all of our attention on three other different pillars, the first, being the US investment grade and global investment grade bonds denominated in US dollars. The second is emerging markets denominated in dollars and the last pillar is bonds denominated in Euro, and we call this pillar 'Special Situations' denominated in Euros, specially some crossover bonds or subordinated debt or issuer that issue only bonds in euro and they are not present in the US dollar market.

Obviously, the Fund is in US dollar denominated. So, all of the investments which are not in dollars are systematically hedged into the US dollar. So globally this is the strategy, based on four pillars and the first pillar is US Treasury 40 per cent and the three other pillars weight is 20 per cent each.

What is your primary focus and contributor for the Fund?

Eric Vanraes: The most important, is the behaviour of central banks as bond investors. We focus mainly our attention on central bank behaviour and macro-economic statistics, we focus our attention on economic growth, inflation, unemployment and the behaviour of different countries.

We also focus our attention on special events, such as Brexit in Europe or the trade war between Donald Trump and China or probably also Mexico or Europe but, central banks are definitely the main contributor of our economic scenario and economic views.

Central banks are definitely the most important pillar of our investment process, and recently their behaviour changed. In the US it changed dramatically because after a rate hike in December the Fed turned dovish since the beginning of the year. It was exactly our scenario, so our portfolios are positioned for this behaviour.

In Europe the ECB is in a corner, there is low growth, low inflation in Europe and they need to do something, but their toolbox is empty. So probably the next step is a QE 2, a second wave of quantitative easing.

How is the Fund's portfolio currently positioned?

Eric Vanraes: The recession risk or slowdown risk has increased substantially in the past months. So, with our four pillars strategy we have to decrease some pillars and increase the main pillar let's say, the US treasuries.

So recently we took profit on some bonds US Investment grade and Global Investment grade bonds, Emerging Market bonds and in the Euro bucket we decreased substantially the weight of cyclical names and subordinated debt. And today we don't hold subordinated debt anymore because they have an equity content and, as mentioned, we think that spreads could widen substantially in the coming months. So, we decreased the three pillars increasing the weight of US Treasuries and we don't intend to increase the weight of risky assets and we focus our attention on US Treasuries today.

What strategy are you pursuing currently and how is this reflected in the portfolio's duration?

Eric Vanraes: We decreased substantially the credit risk, as a result we increased the duration risk and the duration risk is above 5 today. It is more than our peers. We also implemented a Barbell strategy in the US Treasury market.

The shape of the US Treasury curve is like a 'U' today. So, we increased the weight of the two tops of the 'U' and we decreased, and we are underweight the bottom of the 'U'. It means that we are overweight maturities between 1 and 3 years, and on the other side of the 'U', 10 and 30 years. And we are underweight maturities between 3 and 10 years.

3rd Floor, Frances House
Sir William Place, St Peter Port
Guernsey GY1 1GX, Channel Islands

+44 1481 722 322
info@ericsturdza.com
ericsturdza.com

Do you foresee any adjustments in the shape of the portfolio in the short to mid-term?

Pascal Perrone
Deputy Portfolio Manager
Biography

Recession risk has increased, and this has already led us to reduce our exposure to the most sensitive sectors such as Basic Materials, Automobiles, Hybrid Debts and at the same time we have increased our exposure to US Treasuries. In the short mid-term if inflation expectation reaches depressed levels, we may start to build position in Inflation Protection Securities.

What is the Fund's approach to Risk Management?

Pascal Perrone: Risk management is key in all our investment strategy, and there are two aspects we monitor closely; credit risk and liquidity risk.

For the portfolio credit risk, we have developed an in-house credit scoring model based on three sub-scores: company risk score, country risk score and sector risk score.

The company risk score assesses each company using its ratings and the last available financial data. The country risk score evaluates the economic, financial, political risk of each issuer country and the sector risk score give information on the relative volatility of each sector credit spread.

At the end we calculate an aggregate score for each constituent and the whole portfolio. Regarding liquidity risk, we monitor daily the market condition by using our own observation and liquidity risk analysis tools.

How are fixed income markets and the strategy performing and is this in line with your expectations?

Pascal Perrone: Since December, government rates and credit markets have rallied and our four-pillar strategy has delivered a strong performance above our expectations.

- *END OF VIDEO TRANSCRIPT* -

3rd Floor, Frances House
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Guernsey GY1 1GX, Channel Islands

+44 1481 722 322
info@ericsturdza.com
ericsturdza.com

If you require further information about the **Strategic Bond Opportunities Fund**, please contact:

Adam Turberville
Head of Marketing & Client Relations
+44 1481 742380
a.turberville@ericsturdza.com
ericsturdza.com/

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