RUBRICS

Rubrics Fixed Income Update

13th March 2020

Market Volatility -

The Plumbing was bad and we have sprung a leak

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March 2020

Overview

The crisis in which we currently find ourselves is very different to that of 2008. Both the structure of the credit markets, or the plumbing as we like to call it, and the incentives of corporate CEOs issuing debt into those credit markets are very different. And not in a good way. For the last decade the global central banks have taken every opportunity to encourage reckless activity by corporates and fund managers alike. In the run up to the housing crisis in 2008, it was individuals using real estate like an ATM that led to the problems. Today it is corporate CEOs using their balance sheets to the same end. While now is not the time for ‘I told you so’, the market and central banks are certainly reaping what they have sown. The reason we mention it at this point is to help understand what is going on in the markets and how current volatility will work itself out over the coming weeks.

Banks

We believe that the current perception of stress in the banking system is at this stage exaggerated, particularly for better quality names. Given the likely direction of interest rates and yield curves in the near term, equity holders can expect some further pain as they did in 2016. From a bond perspective however it seems the market reaction is excessive. The widening of the OIS/FRA spread (an indictor for many of the stresses on the banking system) is happening for very different reason than in 2008. Banks then did not lend to each because of grave concerns over what disasters lay in eachothers’ balance sheets. In today’s difficult markets, less activity means less dollar liquidity, which means banks are holding on to USDs instead of lending them out. This is where the Fed should step in, and it has, by flooding the market with its own liquidity bazooka. Indeed despite the availability of some $1 trln in repos from the Fed over the last 2 days, as yet less than $100bln has been drawn down.

Credit Markets

A protracted hit to economic activity is going to impact the more leveraged balance sheets quite severley. We would expect to see rating downgrades and a jump in defaults in the coming 12 months. If the truth be told the market was somewhat of a ticking time bomb in this regard. Too many businesses, in shale oil production for example, were living on fumes for too long and will ultimately find it very difficult to find support for their challenged business models. The big positive here for credit markets is that well-run companies with strong balance sheets will find less competitors undercutting their business through cheap financing. It will not be easy over the next few months to identify the winners and losers, but assuredly there will be both. Indeed it might even be the case that investors need active managers again! There is clearly a wave of selling in the market at the moment, in part through passive strategies and over extended active managers who had been drinking at the central bank punch bowl for a little too long. The lack of a significant ‘middle-man’ in the credit markets is a problem for price discovery and transactions, with most banks having reduced the size of their balance sheets and the scope of their trading operations. This has exacerbated the mismatch between sellers and buyers. There will however be demand for companies with strong balance sheets at the right price, much like ourselves. Which means buyers will re-emerge and volatility will settle down, even if we have more concerning economic and health related newsflow ahead of us.

Central Banks

Do not underestimate the size of liquidity that central banks can pump into the markets. There has been a decidedly mixed response thus far to recent central bank announcements. That might change by the time this note goes out however! We genuinely believe that in terms of liquidity and the functioning of capital markets they have the power, even today, to achieve a lot. What they can't do any more is fix broken business models. So don't underestimate this in the short term. It won't effect the fundamentally led value where asset prices will ultimately get to, but the way they get there may well be far less frenzied then what we have witnessed in the past couple of weeks. Something we would hope will lead to a reduction in the type of extreme volatility seen on Monday and Thursday this week.

Governments

Unfortunately this is where we see the many of the real risks in the short term. In particular stemming from the leadership in the UK and US. Populist leaders like Johnson and Trump are in our view ill-placed to deal with issues like the ones we currently face. We would question the quality of the cabinet ministers/advisors, some of whom have been put in place primarily on ideological grounds. Furthermore we would be concerned about the seeming over-reliance on misinformation – something from a health perspective we cannot afford.

The UK decision to delay rather than contain the virus is highly questionable in our view, and to do so under the guise of science is somewhat disingenuous. This smacks of a decision made on political grounds not medical ones. Whilst we have no more insight or expertise than the next person as regards the spread of the virus, it would seem that South Korea have so far shown the way in terms of dealing with the problem. If the virus is allowed to spread unabated for too long, the strain it can put on the health system can be significant, as we have seen in Italy. On the positive side however, Italy may be beginning to get on top of the problem having imposed a full lockdown. As regards Trump, he represents arguably the biggest challenge to getting this problem under control in the US. Again, looking at the example of South Korea, testing and containment is critical. On top of this free and uncontaminated information flow is critical. At present however it appears that medical officers have been instructed to pass all public statements through Mike Pence. This is very different to setting the narrative around an impeachment – the US will need real facts, not alternative ones.

Outlook

In spite of the wave of negativity, we are actually cautiously optimistic that over the next few months we will get beyond this problem and life will revert back to some form of normality. There will however be a lasting legacy for the global economy as there was post the GFC in 2008. Debt levels will be higher and interest rates locked even lower. Monetary policy through this period will move from supporting asset markets to supporting government spending and fiscal policies. The future will be very different from what we have seen in this cycle. In terms of the here and now the important thing is to manage assets rationally in this time of great opportunity, but also prepare to for a different future from the one we may have been expecting only a few short weeks ago.

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Market Statistics

We have broken many records over the last few weeks – one of our favourites is the fact that it took the Dow Jones just 19 days to go from an all time high to a bear market. Rarely does anyone leave a party in good order having gorged at the punch bowl for as long these financial markets have! Certainly these last couple of weeks have been sobering to say the least.

Funds Update

Global Fixed Income UCITS Fund

- Approximately 90% of fund in liquid US Treasuries or cash
- Active duration management – currently at 3.5 having ranged between above 5 for much of 2020
- Currently looking to use ample liquidity to re-deploy cash to credit markets offering increasingly attractive entry levels.

Global Credit UCITS Fund

- Approximately 30% of the Fund coming due in the next 6 months
- Current duration at approximately 1.8
- Aggregate portfolio yield approximately 4.5% in USD

Emerging Markets Fixed Income UCITS Fund

- Approximately 60% of the Fund in US Treasury Bills
- Active management of local currency exposure – currently at approximately 13%
- Hard currency exposure at approximately 30%

Performance

Fund Performance as at 12.03.20	Ytd	3 Yr	5 Yr
Global Fixed Income UCITS	+4.38%	+4.10%	+3.52%
Global Credit UCITS	-1.85%	+3.82%	+3.91%
Emerging Markets Fixed Income UCITS	-3.29%	+2.07%	+4.69%

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Rubrics COVID-19 BCP Update:

Rubrics Asset Management would like to assure all clients that we are taking all necessary action to ensure no interruption to our business as well as the continued safety, health and wellbeing of our staff.

All service providers to our business have confirmed satisfactory BCP operations are in place to ensure no interruption of service to our clients.

From a technology and Infrastructure perspective our employees have the capability and tools to work from home and Rubrics Asset Management's BCP plan in place has been tested on a regular basis. To that end we can confirm that we are able to support remote working, via secure remote access, resulting in no impact to our day to day activities.

We will continue to follow updated information from the WHO and Ministries of Foreign Affairs regarding restricted travel as well as follow further instructions as required and we will be monitoring and communicating with our employees on a regular basis.

Current Working Practices

Business Support -

All business support team members in Dublin and London have been instructed to work from home.

Operations and Compliance -

All Operations and Compliance team members in Dublin and London have been instructed to work from home.

Fund Management –

Rubrics has split trading operations between Dublin and London. Half of the trading teams from each jurisdiction have been instructed to work from home and the other half have the option to work from the office. This means that at all times we have fully insulated the team from any potentially virus-related disruptions. All portfolio managers have full access to trading platforms from their remote locations.

IMPORTANT INFORMATION

March 2020

Rubrics Global UCITS Funds Plc is a variable capital umbrella investment company with segregated liability between sub-funds; incorporated with limited liability in Ireland under the Companies Acts 2014 with registration number 426263; and authorised by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended). This document is for information only and does not constitute an offer or solicitation to deal, whether directly or indirectly, in any particular fund. Nothing in this document should be taken as an expressed or implied indication, representation, warranty or guarantee of performance whether in respect of income or capital growth. No warranty or representation is given as to the accuracy or completeness of this document and no liability is accepted for any errors or omissions that the document may contain. The Key Investor Information Documents ("KIIDs") and prospectus (including supplements) for Rubrics Global UCITS Funds Plc are available at www.rubricsam.com. The management company of Rubrics Global UCITS Funds Plc is Carne Global Fund Managers (Ireland) Limited (the "Management Company"). The Management Company is a private limited company, incorporated in Ireland on 16 August, 2013 under registration number 377914. The investment manager of Rubrics Global UCITS Funds Plc is Rubrics Asset Management (Ireland) Limited (the "Investment Manager"). The Investment Manager is a private company registered in Ireland (reference number:613956) and regulated by the Central Bank of Ireland in the conduct of financial services (reference number:C173854). Details about the extent of its authorisation and regulation is available on request. Rubrics Asset Management (UK) Limited is an appointed representative of Laven Advisors LLP, which is authorised and regulated by the Financial Conduct Authority of the United Kingdom (Reference number: 447282). Laven Advisors LLP is not authorised to promote products to retail clients, all communications originating from either Laven Advisors LLP or Rubrics Asset Management (UK) Limited is therefore intended for professionals and eligible counterparties only. Data Source: © 2016 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. www.morningstar.co.uk.

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Additional Information for Switzerland: The prospectus and the Key Investor Information Documents for Switzerland, the articles of association, the annual and semi-annual report in French, and further information can be obtained free of charge from the representative in Switzerland: Carnegie Fund Services S.A., 11, rue du Général-Dufour, CH-1204 Geneva, Switzerland, tel.: + 41 22 7051178, fax: + 41 22 7051179, web: www.carnegie-fund-services.ch. The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva. The last share prices can be found on www.fundinfo.com. For the shares of the Funds distributed to non-qualified investors in and from Switzerland and for the shares of the Funds distributed to qualified investors in Switzerland, the place of performance is Geneva.