A retrospective view on the first half of 2020: a reflection of Axioma's Investment Team

Why fixed income?

Traditionally, fixed income investments have been associated with low-return stemming from the low-risk conservative approach to investments. We have embraced the reliability of the bond coupons stream and lower, relative to equity investments, volatility. Fixed income hedge funds employ various strategies in their quest for achieving absolute return: investing in high-yield or emerging-markets-only bonds, short-selling securities and making bets on interest rate movements.

And what is our approach to fixed income?

We stick to our conservative strategy of maintaining a vast geographical and industrial diversification with a high proportion of investment-grade issuers. This allows us to take leverage when market conditions are favorable. This approach has proved successful strategy in securing for our investors a reliable source of income at a relatively low risk within the ever-changing market environment. Does all this necessarily come with a low return? Not at all. Since its inception, Axioma Leveraged Bond Fund generated 9.3% per annum return (as of 30.06.2020).

How did the Axioma Leveraged Bond Fund withstand the March market correction?

We have witnessed an unprecedented crisis subsequent the Covid-19 outbreak which led to a massive sell-off on the markets. While some market participants were driven to bankruptcy and others were licking their wounds, our Fund has had a sharp V-shaped recovery and has brought a return of 8.1% for the first half of 2020.

By the end of 2019 valuations were very high in our view, so we switched to a more conservative approach: low proportion of high-yield positions (appr. 40%), moderate duration (5 years) and no leverage. Consequently, our fund was prepared for the crisis and our conservative approach has contributed to a much faster rebound from the March low.

- *Pure luck or a well-defined strategy?*

We have used the same strategy as with previous market corrections (2016, 2018) witnessed by our Fund since its inception. And that has proved effective once again. At the time when there were only sellers on the market, we grabbed the opportunity and picked up investment-grade bonds of solid companies from sectors which were hit hardest by the oil crisis and government lockdown measures. We did this by increasing our leverage to up to 50%, thanks to the high credit quality, diversified structure and moderate duration of our portfolio. We did not make risky bets and only acquired high-conviction bonds. These acquisitions were done at low refinancing costs and they brought a significant additional return to our fund. The intervention of central banks and governments worldwide have helped markets to return to normal functioning and economies to start their recovery. The bonds we acquired have been the first to recover.

- *In short…*

After a stunning 14.8% performance in 2019, 2020 has been a proof year for us and many other asset managers as well. Having registered -8.9% for 1Q20, our Fund has promptly rebound and posted 8.1% for 1H20, outperforming a vast majority of its peers and most fixed-income indices. There is no magic in it - only hard-work, no-panic approach and the strive to deliver results to our clients.

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We hope you will find this information useful and we will be glad to answer your questions

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