

# RM Infrastructure Bond Fund

Q1 2024 Presentation

Institutional Investors Only



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# SVS RM Infrastructure Bond Investment Objectives

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- **Objectives:**

- **Investment objective to target an income return greater than SONIA**

- **Target Sectors**

- **Regulated Infrastructure** – Focus on Power
- **Social Infrastructure** – Focus on Healthcare, Accommodation and Education
- **Economic Infrastructure** – Focus on Transportation and Telecommunication

- **Why infrastructure:**

- **Lower default rates than broader corporate sectors\***
- Access to Inflation linked bond issuers / **inflation linked cash flows reduce borrower risk**
- Financing real assets with **tangible asset backing and better recovery profiles**

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**Fund  
Information**

- Low management fee, 0.45% F Class
  - F Class capped OCF 0.50%
  - Zero synthetic costs
  - IA Sector: Sterling Strategic Bond
  - Average rating currently BBB
  - Only Infrastructure focused fund in sector
- 

• <https://www.spglobal.com/ratings/en/research/articles/221219-default-transition-and-recovery-2021-annual-infrastructure-default-and-rating-transition-study-12576939>  
• Infrastructure has a comparatively smaller high-yield universe (10% of infrastructure issues) than the broader non-financial corporate sector (43%)

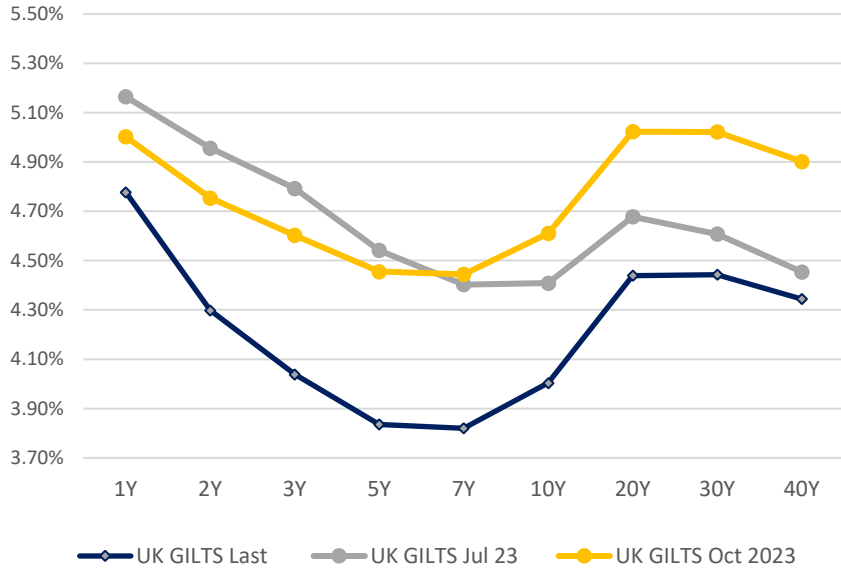
## Appendix 1 Portfolio Overview

- Market overview
- Allocations process
- Model portfolio
- Simulated fund performance
- Market & portfolio outlook



# Macro-Economic Conditions

UK GILTS & US Treasury Yield Curves (%)



Credit Spread Indices (bps)



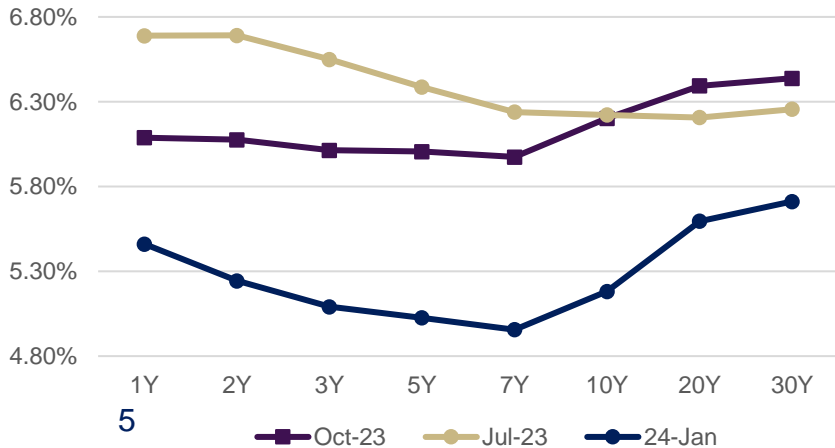
## Yield curve shape

- Inverted – cause for concern as this usually predicates a recession
- Indicates tighter credit conditions as short dated financing is expensive.
- No real yield pick up being offered to extend.

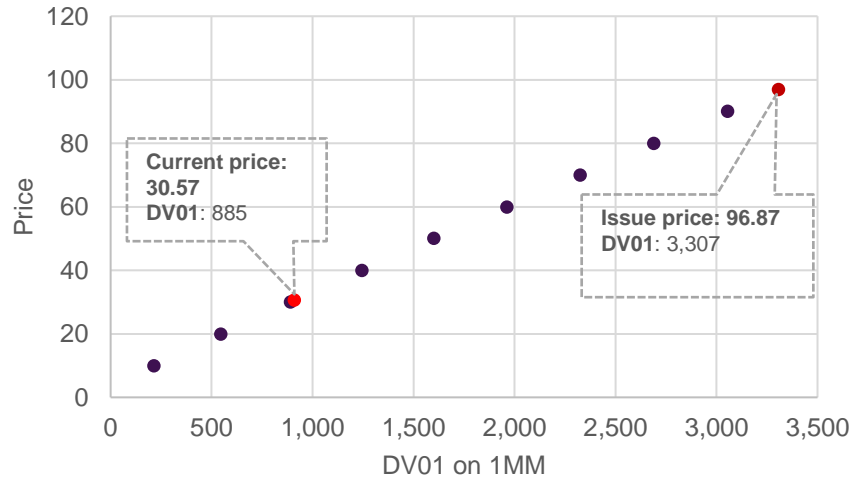
## Credit Spreads

- Cautious outlook as tighter credit conditions should see an increase in defaults and wider credit spreads.
- Focus on higher quality, shorter dated credit now. Tactical movement up and down capital structure to play any volatility.

GBP UK Utilities Yield Curve Last (%)



UK GILT 0 1/2 2061



## Allocation Shift

- Deep discount and high convexity bonds offer attractive risk/return opportunities to extend into at the correct time.
- The fund is poised to capitalise on this when rates cycle turns.

Source:  
Bloomberg, 21st March 2024  
Bank of England, Federal Reserve, RM Funds analysis  
Robert H. Frank, Principles of Macroeconomics 2007

# Allocation Process

- Defined and structured approach to risk taking
- Clear risk profile grading system for investor communication

### Investment Guidelines:

- Issuer Limit 10%
- Issue Limit 5%
- >70% portfolio issuers IG
- No Illiquid Holdings/Securities
- <5% crossover in portfolio holdings with RMAI



Outlook	Risk-off	Neutral	Risk-on
Credit Profile	Upper	Neutral	Lower
Definition	90-100% Investment Grade	80-90% Investment Grade	70-80% Investment Grade
Duration Profile	Short	Neutral	Long
Definition	0-5 years	5-7 years	7-12 years

\* Current positioning

# Dynamic Changes in the Portfolio: A 9-month Overview

## Q3 2023

### Positioning

**July** **+0.92%** NAV monthly ret.

- Allocated into very front end with 2-year gilts yielding greater than 5.25%. Both credit and gilts short duration. Focus on IG credit.

**August** **+0.69%** NAV monthly ret.

- Underlying gilt yields fell during the month with specific focus in the front end as curve steepened
- Portfolio relatively unchanged throughout month as initial positioning and narrative played out.

**September** **+0.49%** NAV monthly ret.

- Front end of the yield curve continued to steepen; 5/10 year nearly flat.
- Remained short dated-high quality credit in anticipation of spread widening and credit decompression.
- Started to rotate longer-dated higher convexity gilts given normalisation of risk-free curve.

## Q4 2023

### Positioning

**October** **+0.39%** NAV monthly ret.

- Further yield curve steeping as long end yields rise 2-year yields fell.
- Narrative is that long end yields at 5% will stabilise.
- Credit continues to widen with Xover (HY) closing at 460 and Europe Main (IG) at 85.

**November** **+1.76%** NAV monthly ret.

- Very strong month for government bonds reflecting the expectations for central bank easing earlier than previously anticipated.
- Credit tightened materially with Xover (HY) going from 460 to 370 and Main (IG) tightening from 85 to 68.
- Credit remained firm, with new issuance coming towards the end of the month, particularly in the long-end of the curve
- Allocations remained largely unchanged

**December** **+3.16%** NAV monthly ret.

- Extended portfolio duration at the beginning of the month with some long-dated new issues
- Took advantage of the rally by selling gilts and some credits in the last week of the month.

## Q1 2024

### Positioning

**January** **-0.28%** NAV monthly ret.

- Went into January with a large cash balance to deploy after an expected pull-back.
- Expect yields to fall over the year but, after the December rally, a lot is priced in with 5 and 10-year gilt yields at 3.75%.
- Expect spreads to widen over the year, so maintain focus on short dated IG corporates/underweight HY.

**February** **-0.09%** NAV monthly ret.

- Extended duration during the month from 1.74 years to 4.70 years to capitalize on the increase in yields seen in early February.
- The running yield on the portfolio increased by 10bp over the month.
- The portfolio is well positioned for a reduction in yields as RM feel the recent pull back in prices has run its course

### March

- Entered the month with shorter duration in anticipation of the chancellor's budget announcement on 6th March 2024.
- Spreads continue to tighten

# Current Portfolio Positioning

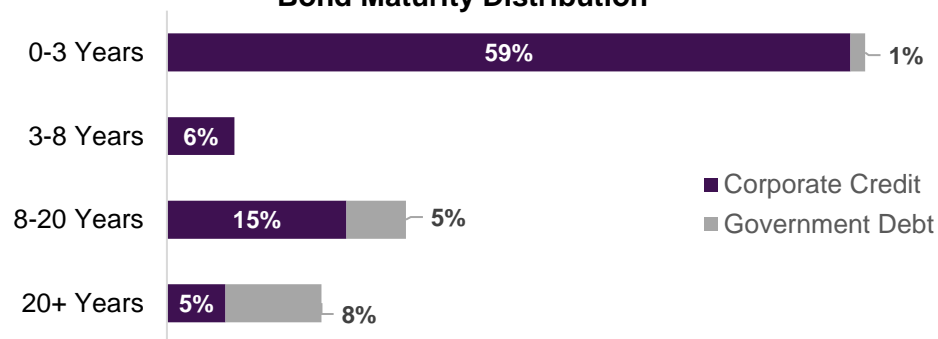
## Portfolio Statistics

- Top #10 Exposure: c.47.5%
- # of Holdings: 25

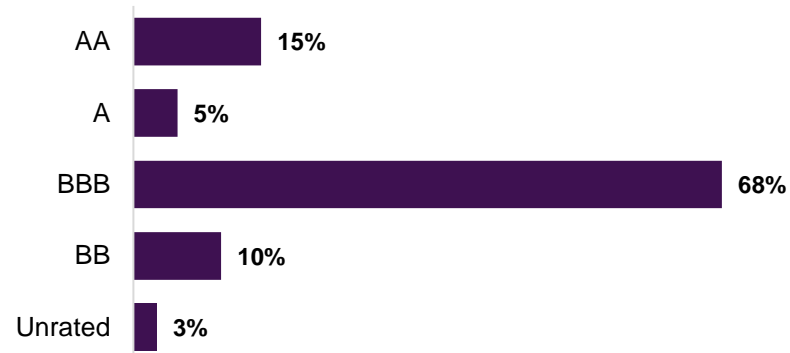
- Running Yield: 5.50%
- Distribution Yield\*: 5.99%
- Option Adjusted Duration: 3.88 years
- YTW: 5.50%

- Economic Infrastructure: 23.3%
- Regulated Infrastructure: 44.9%
- Social Infrastructure: 9.1%
- Gilts/Cash: 22.8%

### Bond Maturity Distribution



### Bond Rating Allocation



## TOP TEN HOLDINGS

Issuer	Coupon	Maturity
Scottish and Southern Energy	8.375%	Nov 2028
Electricity Northwest	8.875%	Mar 2026
Southern Water Services	7.375%	Dec 2041
Associated British Ports	6.25%	Dec 2026
UK GILT	4.25%	Mar 2036
National Grid	6.00%	May 2025
Manchester Airports	4.125%	Apr 2024
Cadent Gas	5.625%	Jan 2036
Enel	5.625%	Aug 2024
Eastern Power Networks	5.375%	Feb 2042

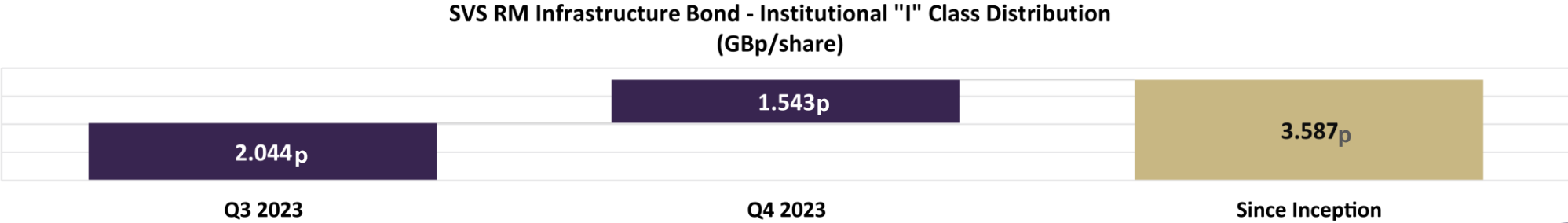
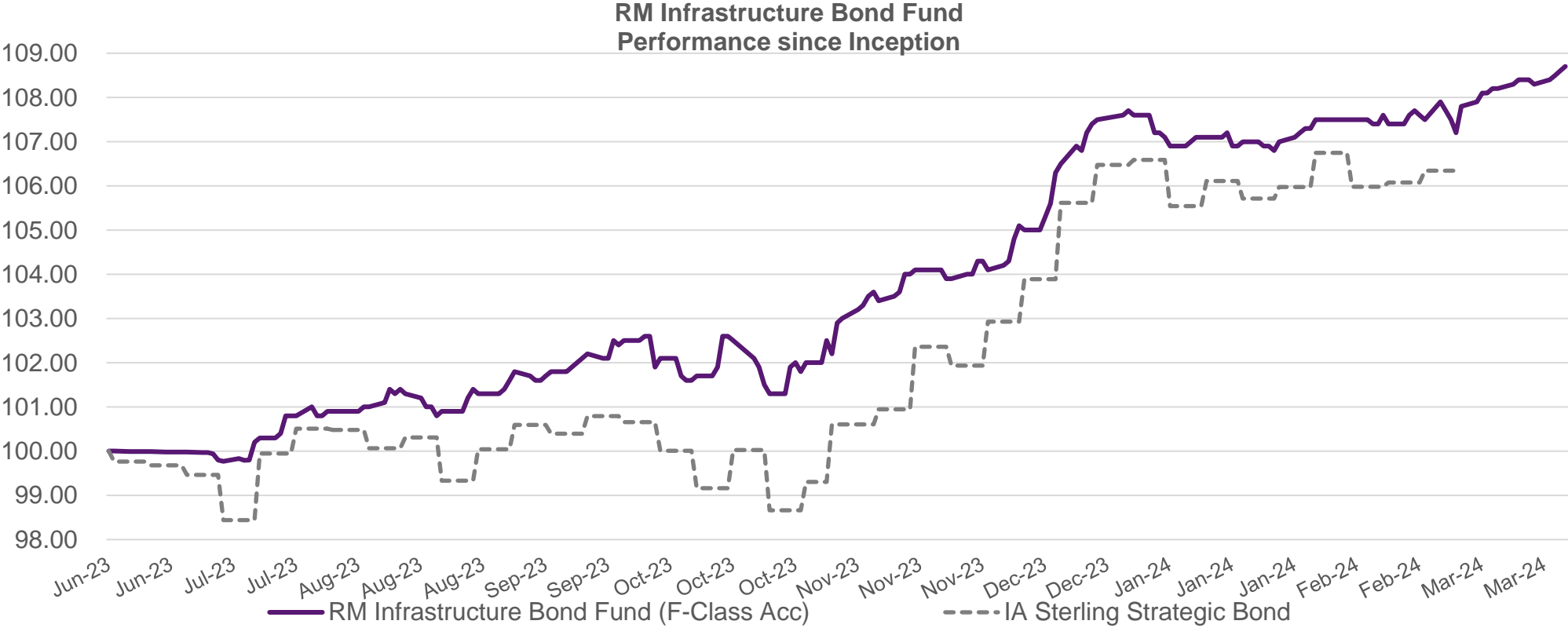
Source: Bloomberg (29<sup>th</sup> February 2024)

Bond Ratings from Bloomberg Composite Credit Ratings

\* Distribution yield reflects the last quarterly dividend annualized as a percentage yield of the GBP Income I class.

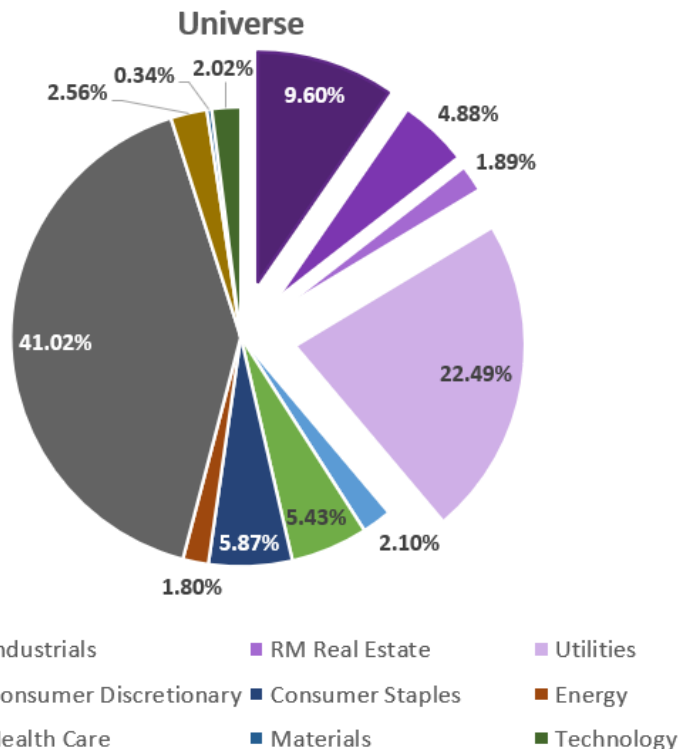


# Actual Fund Performance (15<sup>th</sup> June 2023 – 21<sup>st</sup> March 2024)

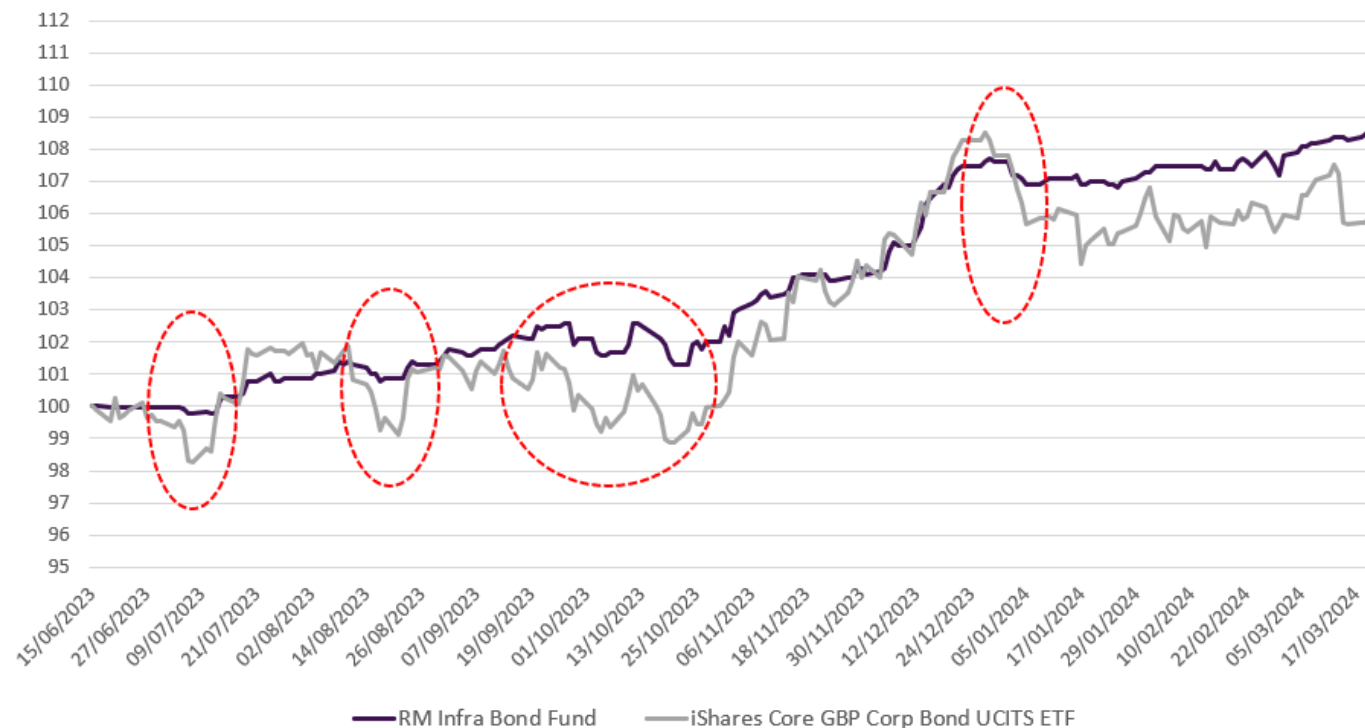


# Actual Fund Performance vs Peer group

iShares Core GBP Corp Bond UCITS ETF vs RM Infrastructure Bond Fund



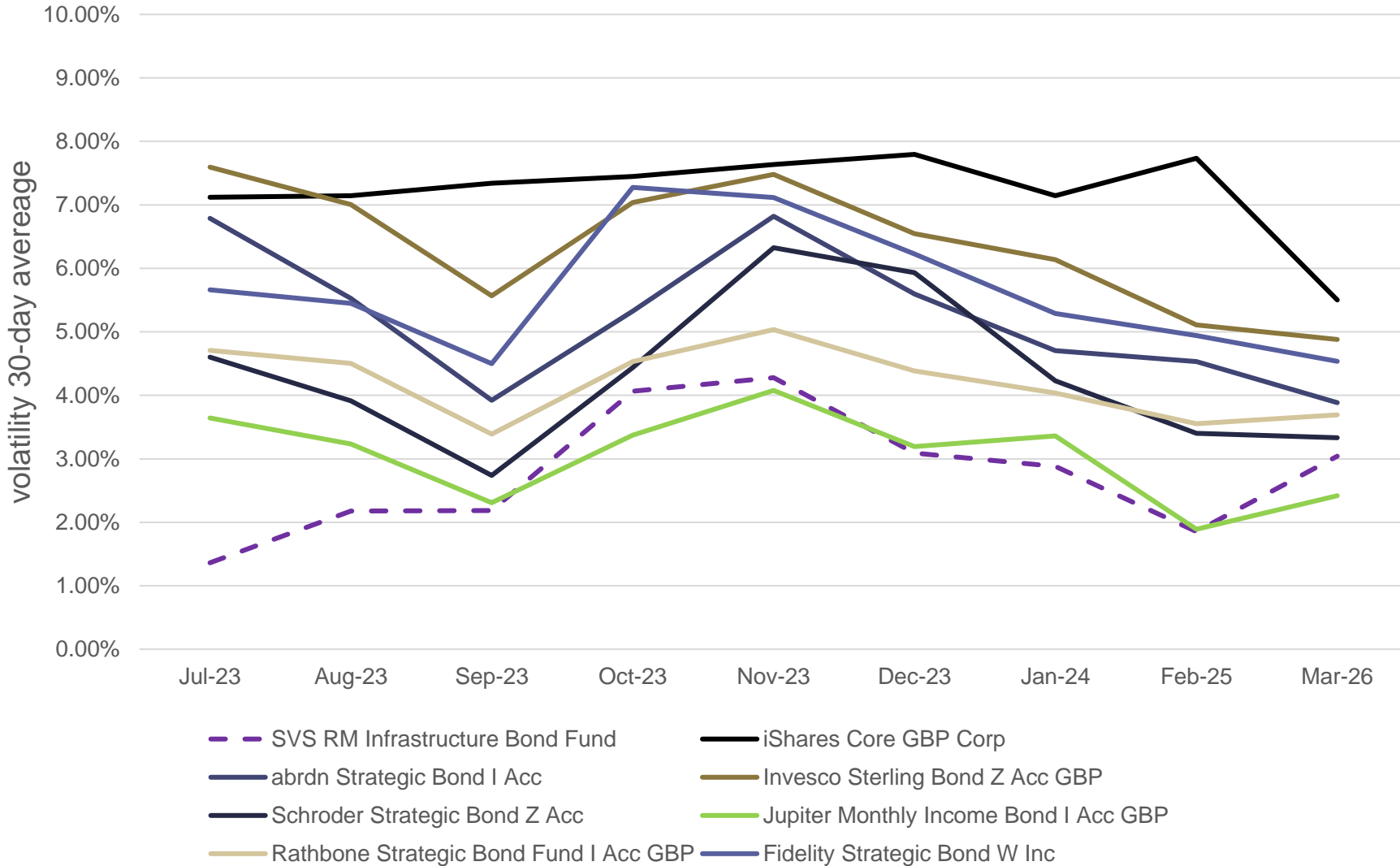
Relative Performance (Rebased 15/06/2023)



- **Since inception:**
  - **Volatility: 3.11%**
  - **Correlation with SLXX: 0.56**
- **38.86% of the RM IBF corporate bond universe overlaps with the iShares GBP Corp Bond UCITS ETF**
- **Lower volatility combined with the defensive nature of the sector significantly dampens drawdowns.**

# Volatility Tracker

Monthly volatility vs IA Sterling Strategic Peers<sup>1</sup>

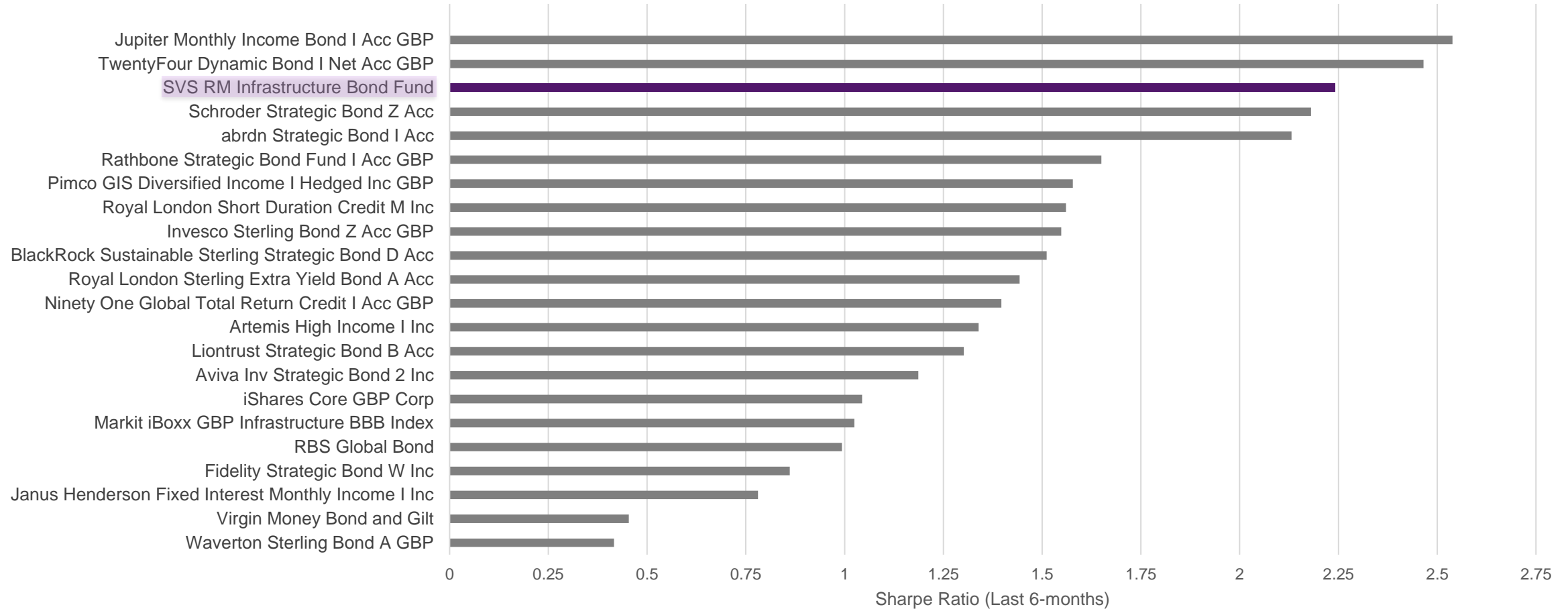


Peers are selected from those IA Sterling Strategic Bond Funds within a performance band 1% higher or lower of RM Infrastructure Bond Fund on a last 6-months basis.

Source: RM Funds, Bloomberg, Data 01/07/2023 – 25/03/2024 inclusive.

# Sharpe Ratio vs IA Sterling Strategic Bond Peers

Sharpe Ratios vs Peers (Last 6-Months)



# Market & Portfolio Outlook

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- **2024 H1 Outlook**

- Overall economic conditions will slow due to tighter financial conditions seen over 2023.
- Expect government bond yields to be lower over the 2024 year and credit spreads wider.
- UK Gilt Curve will steepen.

- **Fund Positioning:**

- Volatility in rates and credit will allow for tactical positioning over the year.
- Currently short duration after the rally seen in December, expect a pull-back as a lot priced into market with 5 and 10 year gilts at 3.75%.
- Focus on short-dated IG, participate in new issues and stay underweight HY. Steepening yield curve will play into the fund's hands.
- Stay nimble, be wary of bond vigilantes given the elections are due this year in US/UK and any unfunded fiscal deficits could be punished heavily, such as we saw in December 2022 after the Truss mini budget.

# Summary

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## RM Funds designed the SVS RM Infrastructure Bond Fund to generate income linked to SONIA and modest capital growth.

- ✓ **Defensive sector focus** - the only fund in IA Sterling Strategic Bond sector dedicated to thematic infrastructure investing.
- ✓ **Bond investments seek to reduce volatility whilst maintaining income.**
- ✓ **Portfolio Diversification:** Exposure to a **focused** yet diverse range of **investment themes**, underpinned by long-term structural factors
- ✓ **Active Stakeholder Engagement:** with ethical, social and corporate governance restrictions.
- ✓ **Experienced fixed income manager with dedicated infrastructure debt investing track record.**

**Highly experienced**  
investment team led by  
portfolio manager, James  
Robson

**Granular and diverse**  
**investments** underpinned  
by contracted cash flows  
and tangible assets

**Potential for protection**  
against macro economic  
conditions and market  
volatility

# Fund Information

Key Term	Details
Distributions:	Quarterly in arrears
Share Classes:	Income & Accumulation available
Currency:	GBP
Min Investment:	£5m Founder / Top-up £25 £10,000 Institutional / Top-up £25
Valuation / Trading:	Daily
Annual Management Charges "AMC"	Institutional: 0.55% Founder Class 0.45%
IA Sector:	<b>Sterling Strategic Bond</b>
	GBP Acc: GB00BR103F36 Founder Class "F" GBP Inc: GB00BR104D86 Founder Class "F"
	GBP Acc: GB00BR104F01 Institutional Class "I" GBP Inc: GB00BR104G18 Institutional Class "I"
ISINs & LEI numbers:	<p><b><u>LEI Sub Fund</u></b> SVS RM INFRASTRUCTURE BOND FUND - 213800HD6S44L44EHD57</p> <p><b><u>LEI Umbrella</u></b> SVS RM FUNDS ICVC - 213800KQVAFO5Q2P4N57</p>

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