ADS Investment Solutions

ADSI Global Fixed Income Fund

July 2019

ADS Investment Solutions

Key Facts

Investment Universe	Global Bonds
Liquidity	Daily
Benchmark	Bloomberg Barclays Global Aggregate Unhedged USD
Management Fees	0.5%
Performance Fees	10% of outperformance over the Benchmark
No. of Positions	40 to 50 on average
Limits	Max 50% in Emerging Markets Max 10% in Unrated Securities Max 30% in Non-Investment Grade Securities
Max Exposure	Gross 125%, Net 100%
Max Cash	10%
Administrator & Custodian	Standard Chartered Bank, Dubai
Auditor	Deloitte (M.E.)
Launch Date	17th June, 2019

ADS Investment Solutions

The World in Five Themes

Structural Drivers of Investment Positioning in Fixed Income

Q3 2019 Update

No Country is an Island

- US Rates to Stay Low
  - The Trump tax bump is over. Domestic activity can remain acceptable but will struggle to over come the headwinds of weak global growth.
  - Investment spending will stay weak unless growth and trade concerns abate.
- De-Globalisation yes, but Capital is still flowing
  - Global trade has been slowing for years but capital remains mobile
  - Inward looking growth still needs to be financed and capital will continue to move towards where returns are highest
  - This mobility of capital is key to equalising rates globally
- Trade is being re-routed, not stopped
  - New supply chains are being developed e.g. as Mexico gains at the expense of China. However this is a long drawn out process. Thus reinforces weaker investment demand.

Conclusion: Duration is still an attractive proposition for FI portfolios

Currencies More Than Rates

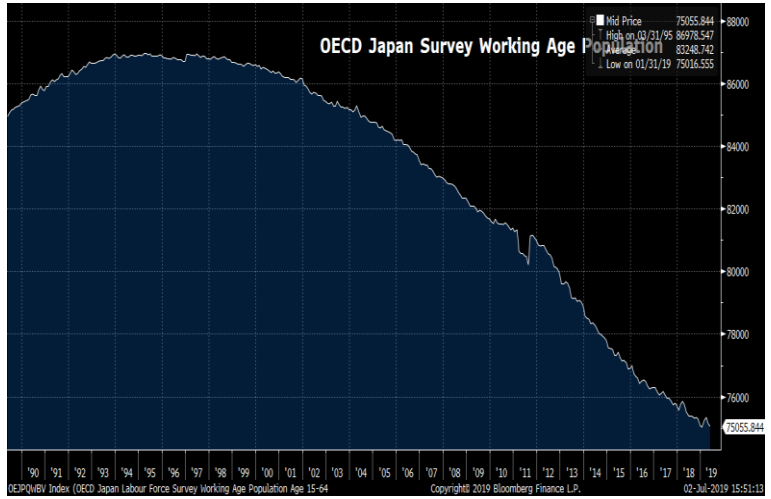
- As rates fall globally and differentials drop other factors will increasingly determine currency performance
- Currency returns are becoming an increasing part of global fixed income returns primarily because coupon returns are inadequate compensation for Fx movements.
- Consequently currency views are more important for generating Total Return. E.g. last year while the global treasuries index was down 38 bps in USD terms, currencies contributed -1.55% of the return.
- Inclusion of markets like China in bond indices requires clearer Fx views.
- US Rates decline on weaker growth data means USD weakness can persist but it is JPY rather than EUR that should take the brunt of the appreciation.

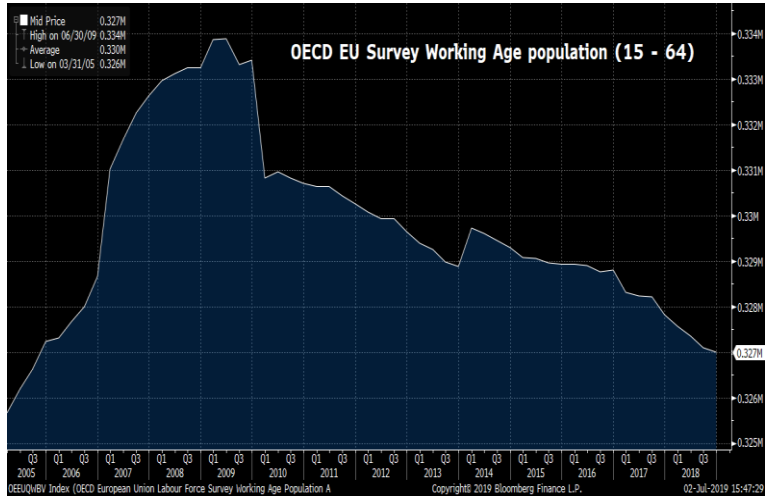
Conclusion: Increase select non USD exposure

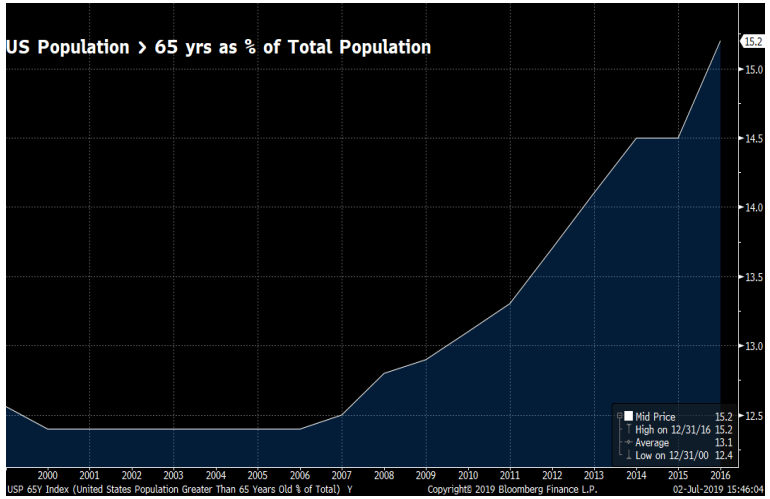
Demographics Define Yields

- The growing proportion of low and negative yield bonds is a direct result of increased demand for savings as population ages
- Japanese working age population peaked well before Europe. Europe is witnessing an amplified Japanese experience.
- US retirement age population has started to grow exponentially. While there are still enough people entering the labour force as leaving it, labour force growth has stagnated.
- The consequence is greater demand for yield, safer assets and lower inflation as retirees face pressure to stretch their savings for longer.

Conclusion: Investors will continue to lock in rates as income needs Trump investment demand.

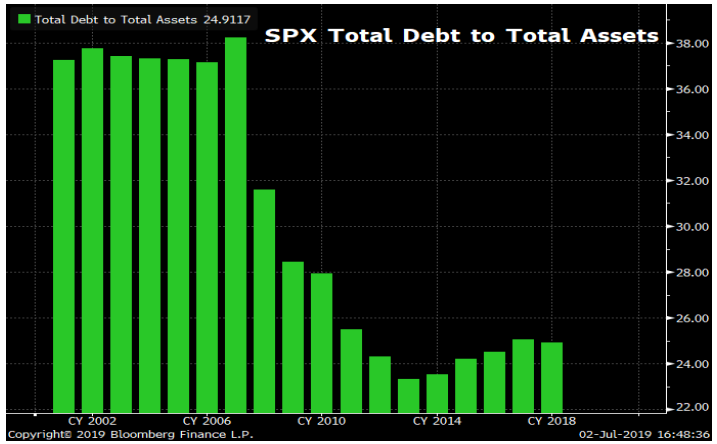


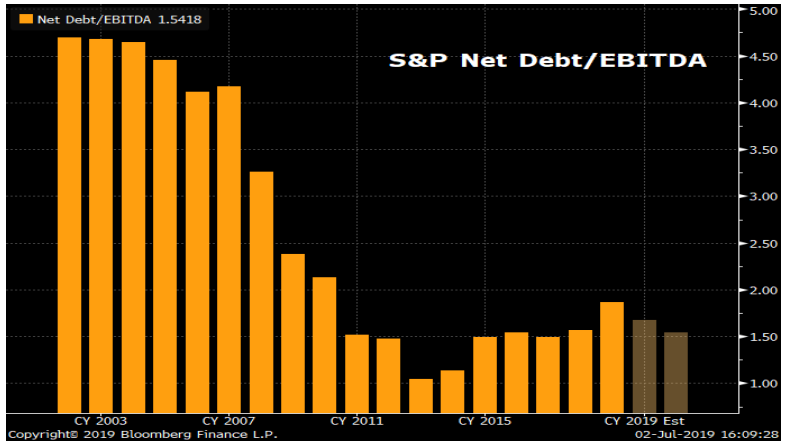


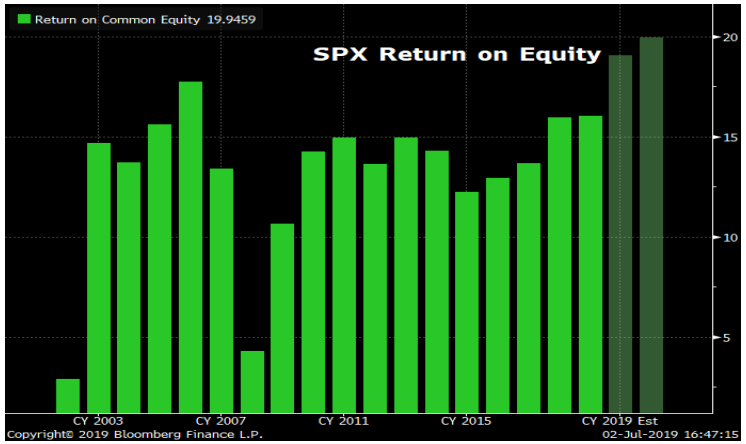


Lower Corporate Leverage, Higher Economic Sensitivity

- Total Debt as a proportion of total assets stands closer to this century's lows despite the ease of borrowing and low interest rates available. Corporates have not really binged like they did pre GFC.
- Debt affordability too is near its best, even though it is on a worsening trend. The rise in Net Debt/EBITDA is faster than the rise in debt, implies factors other than interest rates are more potent in impacting affordability.
- S&P's RoE has been rising though not as dramatically, and the rise has not come from increase in borrowings, more from change in composition of the index and better economic activity in the US.
- Consequently corporate debt remains a safer place than equity for investors needing to chose between either. We prefer IG credit over HY.







Sovereign Stability

- Safe Asset Shortage
  - Post GFC, we have seen a safe asset shortage driven by de-leveraging undertaken globally (especially in commercial banks) further supported by easy central banks. This should continue in a growth constrained world.
- Lower Inflation
  - Global inflation has failed to deliver any nasty surprises this cycle, which means investors have preferred to hold on to sovereign debt despite increased issuance.
- Larger propensity to spend
  - Sovereign issuers have engaged in fiscal stimulus, but it has stayed half hearted. This is especially the case in Europe. There is space for more issuance that is underutilised and bonds consequently remain well bid.
- MMT
  - With central banks being the only game in town, more and more economists are leaning into radical solutions for Modern Monetary Theory. A risk to our lower for longer rates approach is wider adoption of radical monetary and fiscal solutions.

Conclusion: Government bonds remain a preferred exposure unless we see political tide turn radically in favour of unorthodox fiscal and monetary co-ordination. This has to happen in the US otherwise currency movements will fritter away any gains.

ADS Investment Solutions

Investment Process

Our Principles

Client Focus

Understand customer needs and express through customised portfolios

Independent Thinking

Do our own research, Generate our own ideas

Technology

Adopt and adapt to the changing investment paradigm

ADSI is licensed by the Financial Services Regulatory Authority of the ADGM (FSP No. 170025)

Global Macro Review

- Analyse Major Central Banks' policies
- Understand Banking and Financial Sector Liquidity

- Understand the drivers of growth in various regions
- Use our indicators to understand impact on asset valuation

- Understand longer term risk-return expectations
- Understand potential tail risks
- Understand Regulatory impact

- Understand Global Risk Premiums and pricing of risk
- Understand market positioning

Idea Generation

Thematic (60%)

Theme Formation from our Macro Analysis

Sub-Themes Defining Rate & Spread Characteristics

Bond Universe

2 to 4 Issuers Populate Each Theme

- ADSI Research / Broker Research
- Issuer Meetings/ Conferences

Special Situations (40%)

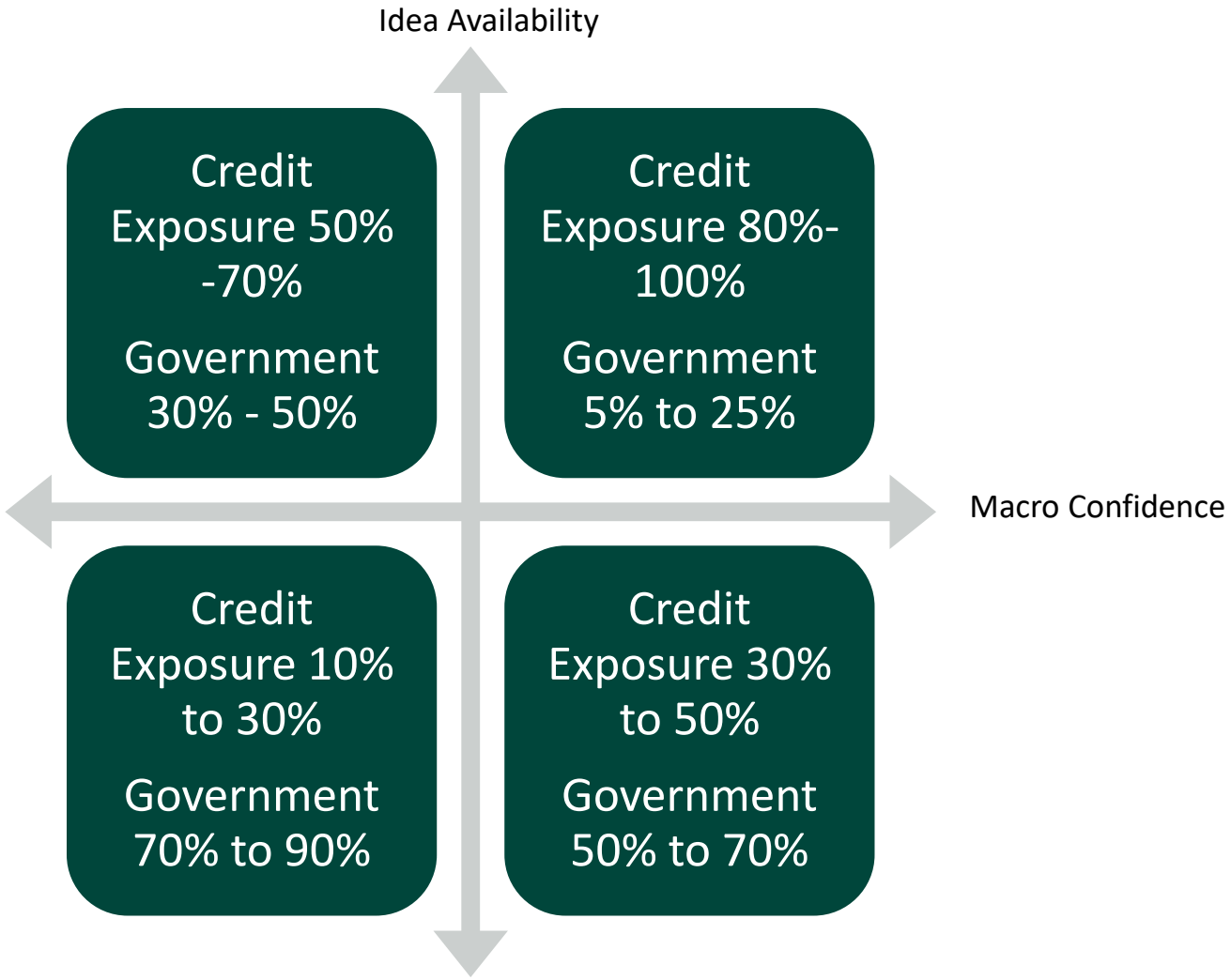
Turnarounds/ Re-rating

Misunderstood Situations

Currency Views

Short-term Trades

Exposure Decision Matrix



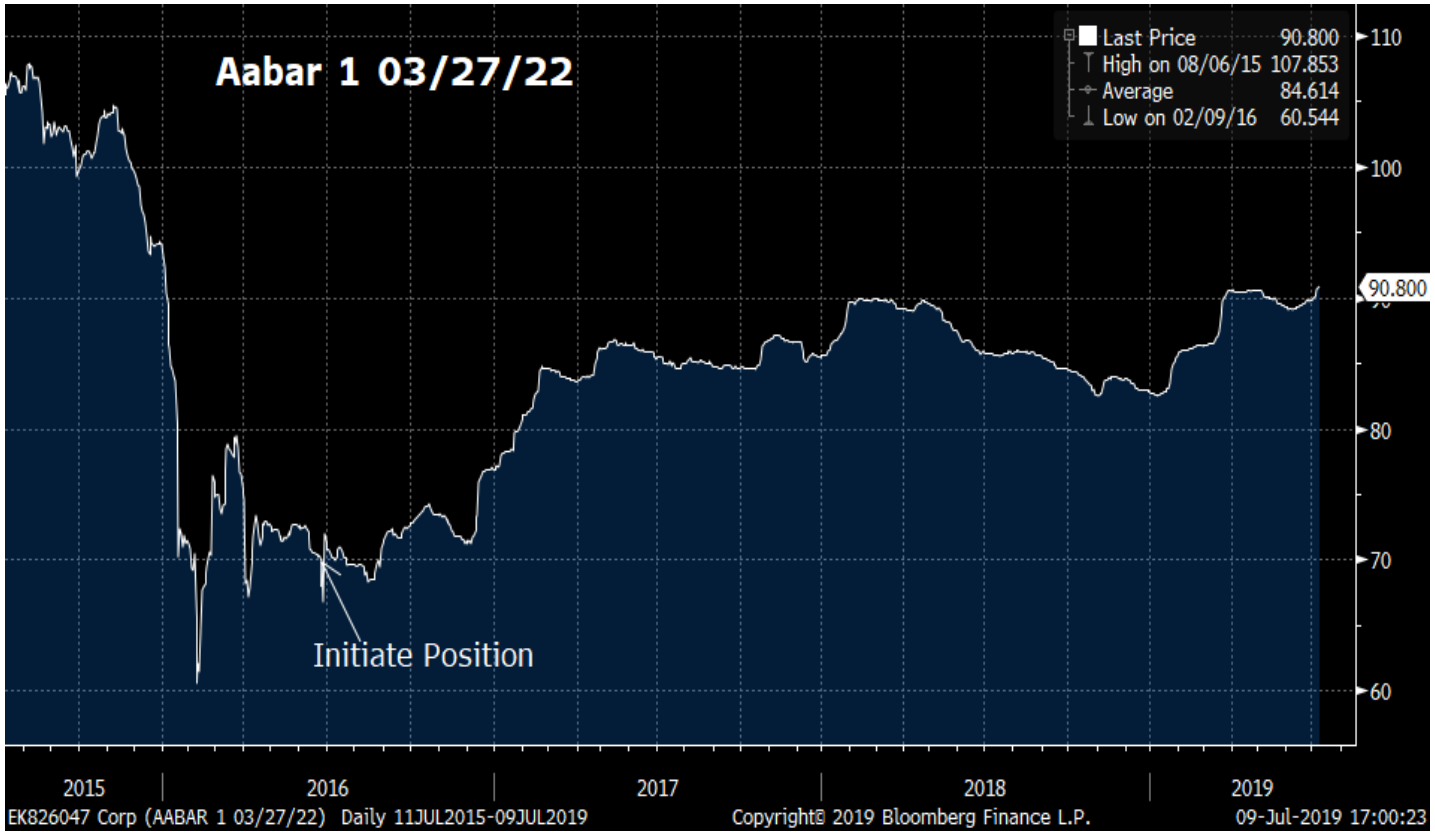
Position Selection

- Well Defined Investment and Exit criteria:
  - Every position initiated has a documented investment rationale, including price targets. Those targets are reviewed at regular analyst meetings.
- Measured Diversification:
  - While the portfolio performance is measured against a benchmark, it is not tied to it. The diversification available in benchmarks is optimised by judicious position selection reducing position proliferation.
- Focus on Liquidity:
  - Positions are filtered daily through our turnover criteria that continuously flags liquidity risk and ensure reduced slippage and market impact on exit and entry.

Risk Management

- Position Management
  - Position volatility tolerance levels, focus on large VaR contributors
  - Active currency risks are reviewed more frequently
  - Reduce turnover costs
  - Review position performance vs expectation at weekly review meetings
- Portfolio Management
  - Actively Managed Target Spread and Duration
  - Establish VaR and Tracking Error Limits
  - Monthly review by Investment & Review Committee – can remove active risk if portfolio performance is unsatisfactory until a remedial plan is in place.

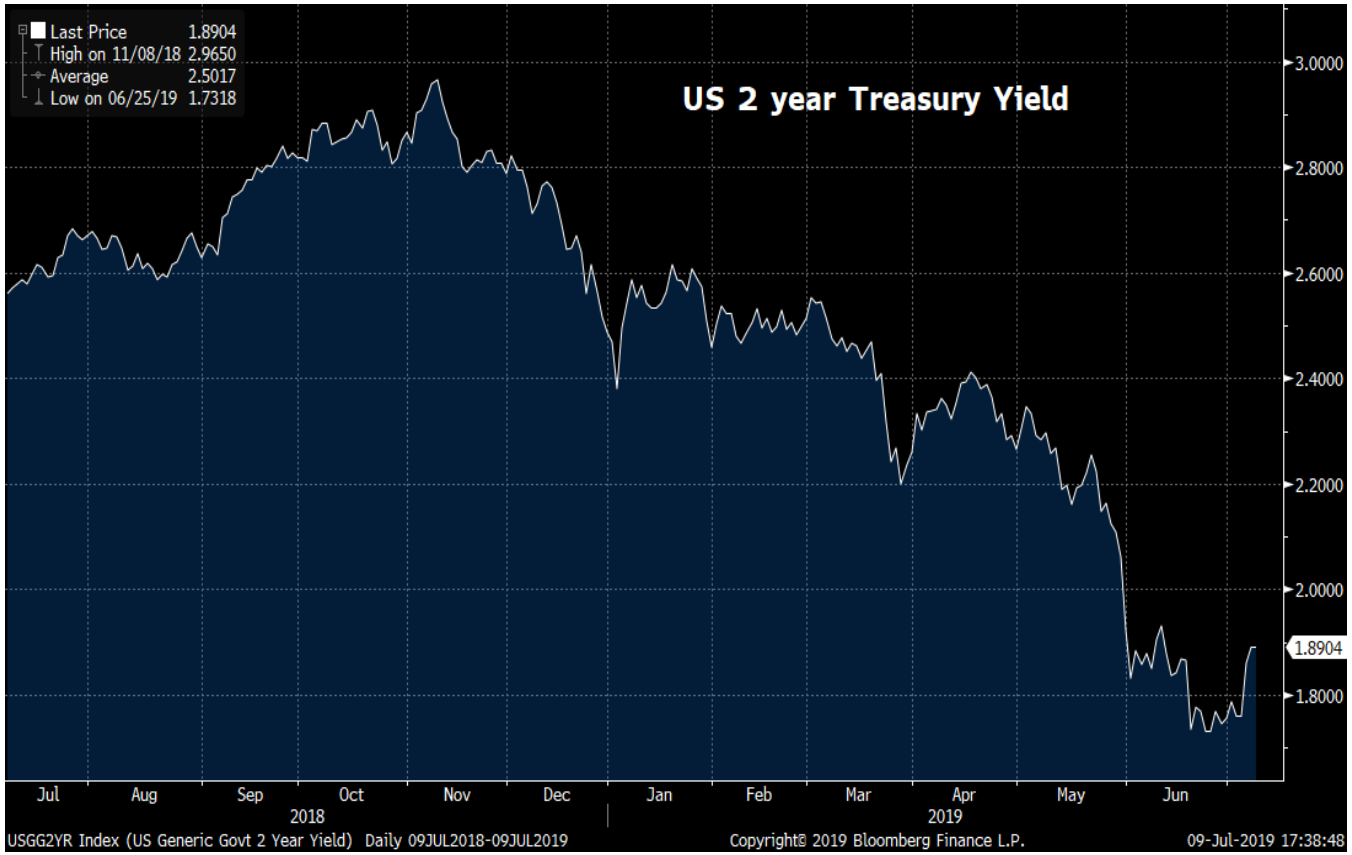
Credit Example: Aabar 22



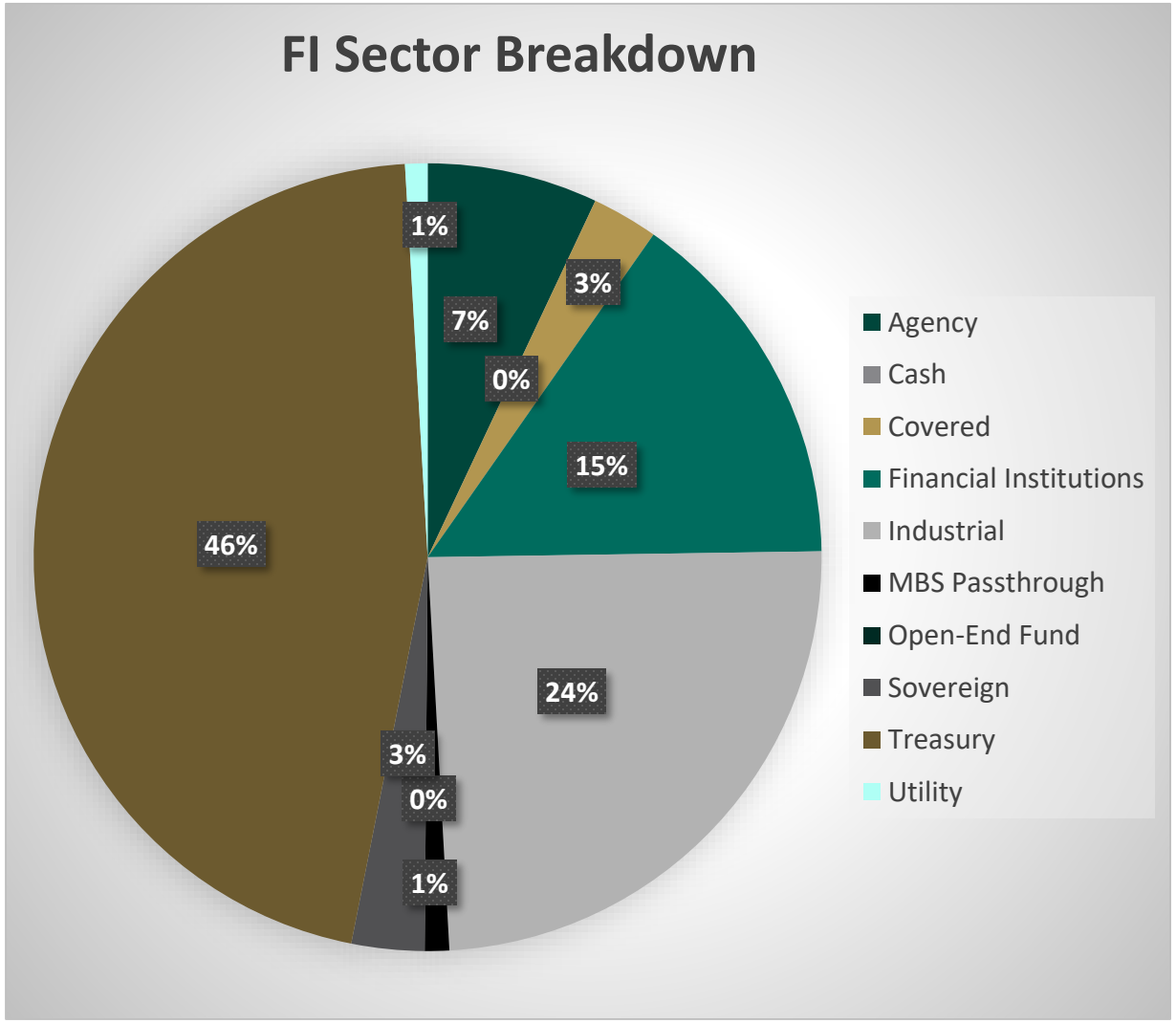
- During the oil price crisis of 2015-2016, GCC Bonds were sharply impacted
- Bonds issued by Aaabar, convertible into Unicredit shares we especially impacted due to the additional concerns on European banks
- Investors continued to miss that conversion was not mandatory
- Concerns around other Aaabar's holdings and 1MDB related issues further impacted sentiment
- ADSI evaluated the bonds as presenting asymmetric upside due to issuance by UAE SWF.
- Bonds are not explicitly guaranteed by holding company but ADSI estimates default probability as minimal considering that Aabar is now part of Mubadala.
- ADSI continues to hold bonds and has added to the position several times since then.

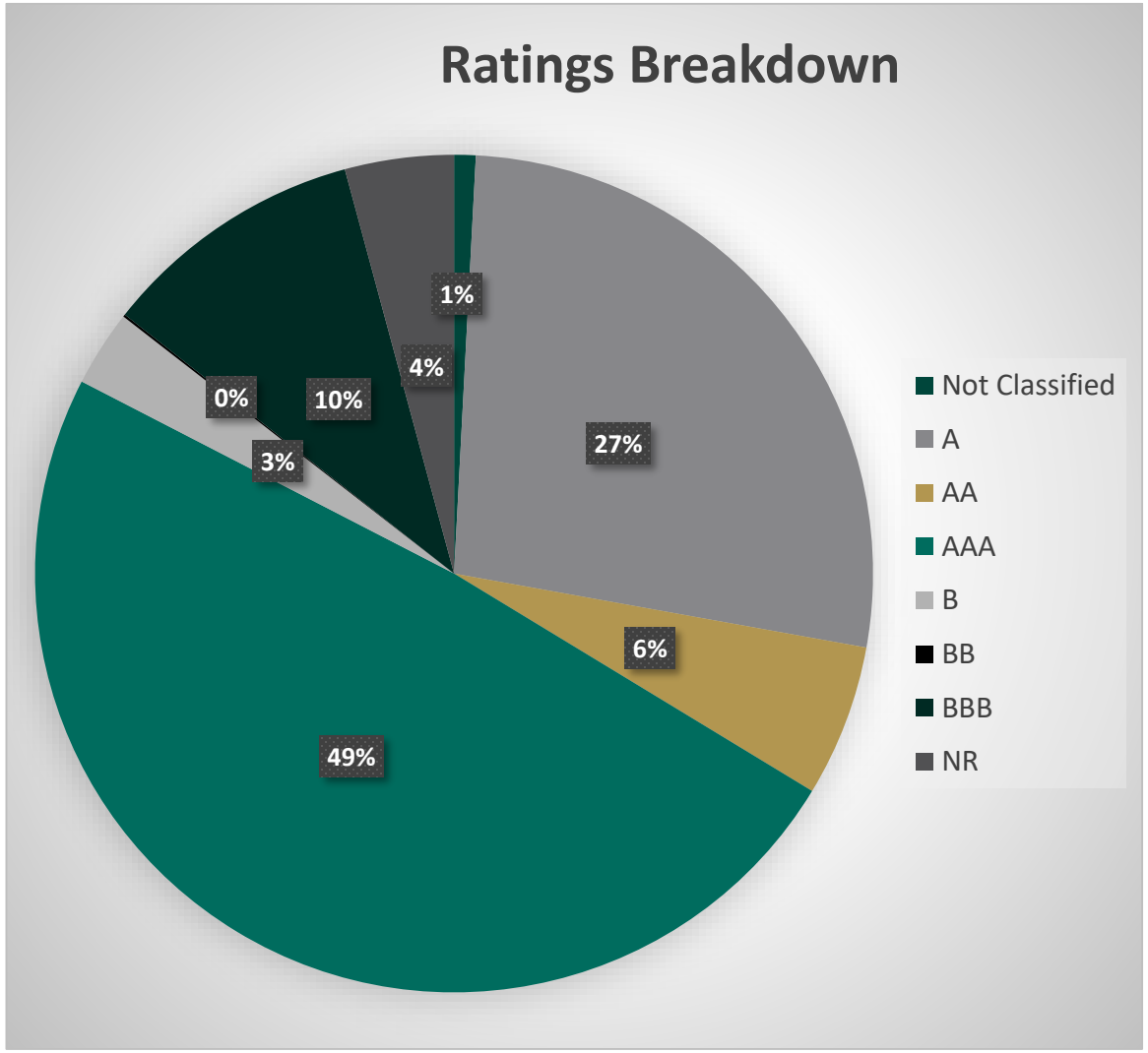
Macro Example – 2 Yr USTs

- ADSI went significantly overweight 2 yr treasuries first in September 2018 and adding further in April of 2019 as we saw global data starting to weaken further buffeted by weakening economic conditions in the US.
- Recent payrolls data has given the market comfort to price out a large hike, however we believe this is counter-intuitive
- Pricing out hikes strengthens USD which tightens monetary conditions forcing even more capital into risk free assets.
- Consequently, unless global growth ex US runs strongly to the upside US treasuries remain a preferred allocation and Fed should continue any cutting cycle they start.



Portfolio Composition (08/07/2019)





ADS Investment Solutions

Investment Team

Selected Biographies

Selected Biographies: Asset Management Team

Dr Ryan Lemand, SEO – Head of Wealth and Asset Management

Dr Ryan Lemand is currently the Managing Director - Head of Asset Management and Wealth Management at ADS Securities Asset Management, based in Abu Dhabi. Until 2015, Ryan was the Senior Advisor to the CEO and Head of Risk Management at the Emirates Securities & Commodities Authority, the UAE's federal securities regulator. Prior to that, Ryan was the Lead Portfolio Manager at Fortis Investments in London and Paris, where he was responsible for managing a 14.6 billion euro portfolio of assets, namely in the space of credit derivatives.

Dr Lemand holds a PhD (summa cum laude) in Financial Econometrics from the École Normale Supérieure, France, and is the author of two books on financial contagion, as well as a number of research articles on financial correlation. Dr Lemand also taught financial econometrics courses at the Paris II-Assas University and Paris IX-Dauphine University in Paris, France. He is a sought after speaker and contributor to major financial markets discussions and events in the UAE and in the wider MENA region.

Ashish Marwah, ACA – Chief Investment Officer, Portfolio Manager

Ashish joined ADS Securities to set up the Asset Management business in 2014. From 2011 to 2014 he was a partner at Aum Asset Management running their India fund. From 2008 to 2010 he was the Emerging Markets Strategy Head at Sciens Capital Ltd. From 2003 to 2008, he was Senior Analyst and Portfolio Manager at Atlas Capital Ltd. (later acquired by Sciens Capital). During his career there, he was responsible running a variety of strategies, including Long/Short Equity, Credit, Global Macro and Emerging Markets. He was responsible for restructuring and managing their Credit Fund and managing their Emerging Market Fund, which was awarded best specialist fund over one year by HFR in 2007. He also created and advised their directional fund and co-advised the private equity and co-investment fund. From 1998 to 2001, he was a practicing Chartered Accountant in India and before that worked for a diversified conglomerate. He received an MBA from the University North Carolina at Chapel Hill in 2003 and a Bachelors in Commerce from Panjab University. He is an Associate of the Institute of Chartered Accountants of India.

Omer Chowdhry – Credit Research Analyst

Omer Chowdhry is a member of the Asset Management team at ADS Investment Solutions. He is responsible for conducting Credit Research and assisting the CIO in constructing Fixed Income portfolios. Prior to joining ADS, Omer worked at T3 Trading Group, a Proprietary Equity Trading firm based in New York city, where he traded US Equities for five years. He then completed his MBA, and moved to Abu Dhabi, where he joined the Treasury and Investment Group at Union National Bank. He was managing a $200 Million Global Credit Trading book and a $1 Billion Short Duration portfolio focused on GCC Credit. He was responsible for the selection and execution of bonds.

Luca Tidei – Senior Execution Trader

Luca Tidei has been part of ADS Securities LLC since 2015 and boasts over 20 years' experience in financial markets. He originally joined the company as an Equity Trader for the Global Markets division before moving to the Wealth & Asset Management division in 2018. His desk takes care of execution for a variety of asset classes including cash equities, equity derivatives, fixed income and structure products. Luca began his career as an analyst at Prudential

Bache Ltd in London, where he rotated among the trading desks of various divisions. He then worked for Paine Webber LLC in Providence, RI, as a junior stock broker. Back in 2000, Luca joined Saad Financial Services SA in Geneva, the family office of a prominent Saudi family. Starting as a Deputy Equity Trader, he was later responsible for managing an in-house long/short US equities fund and was appointed a member of the Investment Committee. Luca was born near Rome, Italy. He holds a Bachelor of Science Degree in Finance (BSc) from Bryant University and a Master in Art Theory (MA) from the University of the Arts London.

DISCLAIMER

ADS Investment Solutions Limited ("ADSI") is a private company limited by shares incorporated under the laws of the Abu Dhabi Global Market (the "ADGM") financial free zone. The company is registered with the ADGM Registration Authority (No. 000000966) and has its principal place of business at Office 712, 7th Floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, Abu Dhabi, United Arab Emirates. ADSI is licenced by the Financial Services Regulatory Authority of the ADGM (FSP No. 170025) to engage in the following regulated activities in or from the ADGM: 'Managing Assets'; 'Arranging Custody'; 'Advising on Investments or Credit'; 'Arranging Deals in Investment'; 'Arranging Credit'; and 'Managing a Collective Investment Fund', as defined in the ADGM's Financial Services and Markets Regulations 2015 (as amended).

ADSI makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document (including any market data or statistical information). All opinions, news, analysis, prices or other information contained in this document are provided as general market commentary and discussion purposes only. Further, this information has been prepared without regard to any specific investment objectives or financial position (including deposit size, leverage, risk appetite and risk exposure) of any specific person. Any reference to historical price movements is informational. ADSI does not represent or warrant that such movements are likely to occur in the future, as past performance is not necessarily indicative of future results.

This document does not constitute either an offer to sell or the solicitation of an offer to buy any financial product or instrument or enter into any transaction or recommendation to acquire or dispose of an investment. This document should not be construed as a recommendation for the purchase or sales of any financial product or instrument, or to enter into a transaction involving any instrument or trading strategy. The information provided is not intended to be used as a general guide to investment and does not constitute investment advice or as a source of any specific investment recommendations. ADSI accepts no liability for any action taken or not taken in reliance on material, content or information contained in this document. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document.

This document is not for distribution to any person or to any jurisdiction in which its distribution would be prohibited.