The Growing Opportunities for Investors in the Fixed Income Sector

Melius
Fixed Income Fund

September 2023
Report

Introduction

Bonds are back as investors increasingly recognise the sector as the asset class choice of the year. In all major markets there is evidence of huge outflows from equity funds and huge inflows into fixed income funds as investors become increasingly nervous. Data from Morningstar[1] shows UK investors have put £10.3 billion into bond funds in the first half of 2023 while over the same period equity funds have suffered £8.3 billion of redemptions.

Analysis by Refinitiv Lipper[2] shows that in the Eurozone, bond funds have been the asset type with the highest estimated net inflows overall for 2023 at €111.3 billion way ahead of money market funds at €22.3 billion and equity funds at €11.7 billion. This has been achieved against a backdrop of rising hopes that central banks in general and the US Federal Reserve in particular may have reached the end of interest rate rises in their battle against inflation. However concerns still linger about geopolitical tensions, global supply chains and a possible recession in the US and other major economies.

The strong recent performance of the fixed income sector has to be seen in the context of the bloodbath in bonds markets in 2022 which saw the value of global bonds falling by more than 30% which was the worst performance in more than 200 years.

Managing Partners Group, which runs the Melius Fixed Income Fund, has gauged the views of investment professionals on the outlook for the sector and the opportunities available. It commissioned the market research company Pureprofile during July 2023 to interview 100 investment professionals working for pension funds, insurance asset managers, family offices, other institutional investors and wealth managers. They work for organisations with a total of €245 billion assets under management in the UK, US, Germany, Switzerland, UAE, Singapore and Hong Kong.

The research focused on a range of issues including their views on the future for the bonds sector, concerns about missing out on fixed income returns as well as the need to increase allocations to fixed income and worries about an equities market correction.

[1] https://www.morningstar.co.uk/uk/news/237299/largest-equity-fund-outflows-since-truss-era.aspx
[2] https://lipperalpha.refinitiv.com/reports/2023/08/monday-morning-memo-european-fund-flow-trends-report-july-2023/

Melius Fixed Income Fund, which is a regulated mutual fund, aims to achieve an attractive level of growth whilst respecting risk diversification. The objective of the fund is to maximise total returns consistent with preservation of capital and prudent investment management.

It aims to outperform its benchmark, the iShares Core US Aggregate Bond (AGG) over a rolling three-year period by concentrating on a yield driven strategy that carries less pricing sensitivity to interest rate movements.

It invests in corporate, high yield and inflation linked bonds and has returned 7.40% in the 12 months to September 2023 outperforming the iShares Core US Aggregate Bond benchmark by 11.15% over the period, benefiting from an exposure to fixed income in the USA, UK, Europe and Switzerland. The fund has returned 23.06% since launch on 31st October 2019.

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The Bond Bull Run is Gathering Pace

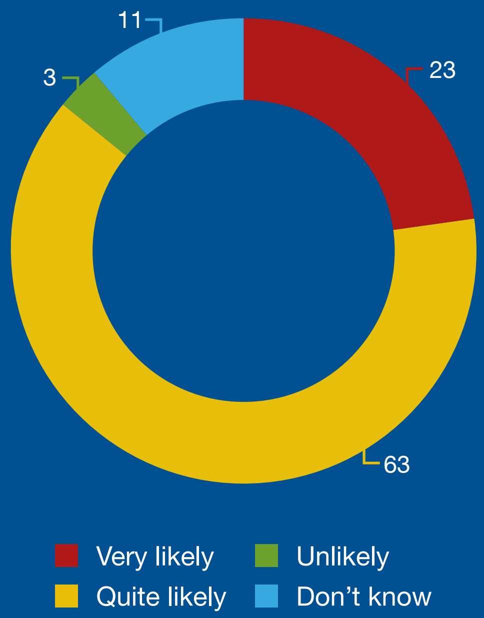
The study found that nearly a quarter (23%) of professional investors interviewed think it is very likely we will have a bond rally in the next 24 months, with 63% saying it is quite likely. Just 3% believe it is unlikely while 11% didn't know.

Around four out of five (82%) respondents expect nervous investors to continue to exodus equity funds in favour of fixed income funds. Almost two-thirds (65%) of respondents say the huge outflows from stock markets in recent weeks will increase slightly, while 17% expect dramatic increases. Just two per cent say the outflows will decrease and 16% say they it will stay the same.

The move from equity to fixed income funds reflects a belief that bonds are at the start of a bull run. More than four-fifths (81%) say this is where the market is headed while 10% disagreed and 9% didn't know.

When asked to pick which fixed income sectors will benefit most from a returning bull run, institutional investors and wealth managers chose US Government bonds, followed by EU government bonds, US non-investment grade bonds and then EU investment grade.

Will There Be a Bond Rally in the Next 24 Months?



Allocations are Increasing and Yields are Predicted to as Well

Significant rises in interest rates over the past year have driven 72% of institutional investors and wealth managers to increase allocations to fixed income assets, the research found. Just under a fifth (19%) have made dramatic increases to allocations while 18% say they have kept allocations the same. Just 10% have cut allocations.

Nine out of ten respondents expect the yields on fixed income instruments to continue to rise over the next six months, with 21% expecting dramatic increases. Around 69% say rises will be slight. Nine percent of investors and wealth managers expect rates to stay the same, while 1% predict a slight decrease.

Looking to the next 12 months, just over a quarter (26%) of investors and wealth managers expect yields to rise dramatically, while 60% say increases will be slight. Around 13% predict yields to remain the same while 1% forecast slight deceases.

To capitalise on the extra returns available from fixed income, just under a quarter (24%) of institutional investors and wealth managers say they will increase allocations to the asset class dramatically, 62% say they will make slight increases. Around 13% plan to keep allocations the same and just 1% plan to slightly decrease their investment in fixed income.

Fixed Income will be More Attractive than Equities Over the Next Two Years

Almost all (92%) of institutional investors and wealth managers questioned believe ongoing market volatility and the prospect of recession will make fixed income more attractive than equities over the next two years. Around a fifth say the difference will be dramatic.

Just 7% expected fixed income to retain its current relative attraction next to equities, and 1% say the asset class will become less attractive than stocks.

However, 15% of investors and wealth managers admit they are very under-exposed and 54% reveal they are slightly under-exposed to fixed income, which is offering the highest yields since the global financial crisis hit in 2008. Just over a quarter (26%) say they have the right level of exposure to fixed income, and 5% say they are overexposed.

When asked what the top reasons are for holding allocations to fixed income, institutional investors and wealth managers selected a predictable income stream, followed by the return on capital, diversification benefits, and then the fact that bonds are lower risk than equities.

When asked how they expect pension funds to change their allocations to different fixed income asset classes over the next 24 months, most respondents say holdings in investment grade bonds will increase.

More than a quarter (28%) of institutional investors and wealth managers expect dramatic increases to US investment grade, while 53% predict slight increase. Eighteen percent say allocation will stay the same and 1% expect a decrease.

For European investment grade bonds the predictions for increases were even higher. Nearly half (45%) expect dramatic increases and 42% say there will be slight increases. Nine percent forecast allocations to European investment grade debt will remain static, while 2% see them falling.

Similarly for Swiss investment grade debt, 41% predict dramatic increases; 40% slight increases; 17% say they will stay the same and 1% believe they will decrease.

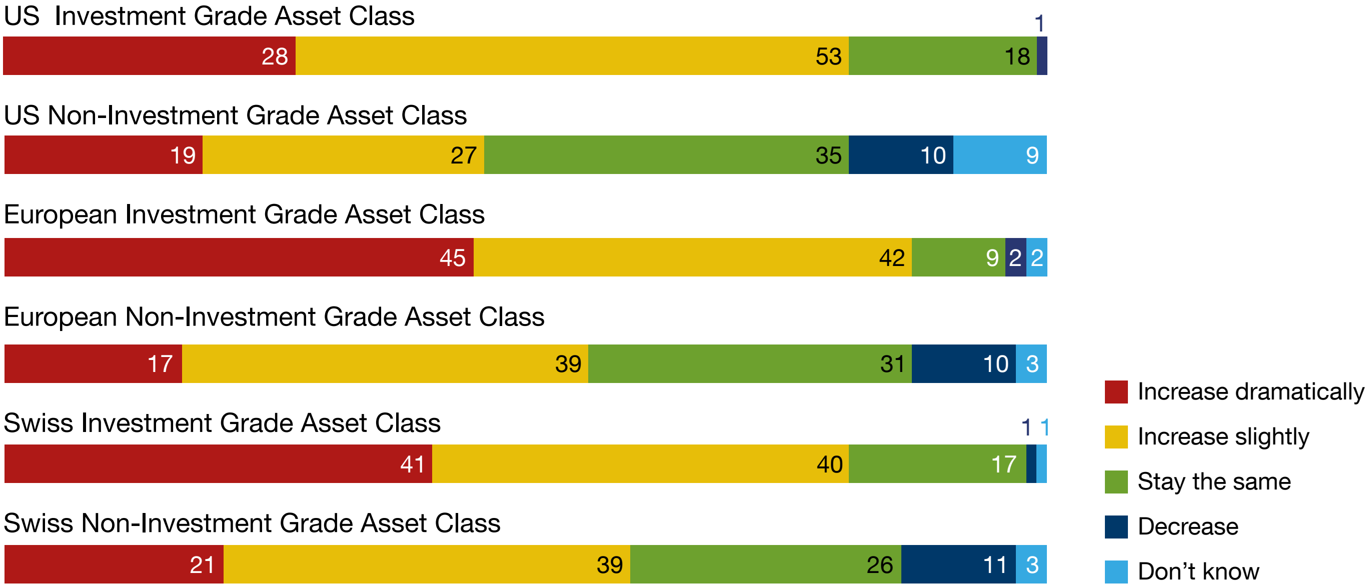
Meanwhile allocations to non-investment grade debt, which is higher risk while offering the potential of higher yields, are less in favour.

Nearly one-fifth (19%) of respondents believe allocations to US non-investment grade will increase dramatically; 27% say slight; while 35% predict them to stay the same; and 9% say they will fall.

Around 56% of respondents believe European non-investment grade will rise with 17% predicting dramatic increase. Thirty-one percent say they will stay the same and 10% predict allocations to reduce.

Finally, institutional investors and wealth managers say allocations to Swiss non-investment grade credit will increase 21% expecting dramatic increases, 39% say slight. More than a quarter (26%) say they will stay the same and 11% predict a fall in allocations.

How do You Expect Pension Funds Exposure to Change Over the Next 24 Months? (%)



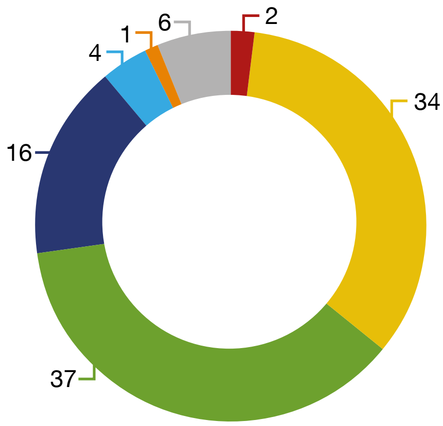
Investors Worry About an Equities Correction

More than nine out of ten institutional investors and wealth managers expect an equity market correction, the research found. More than a third (34%) believe it will happen within three to six months.

Around 37% expect stock market falls at some point in the next six to nine months. Around a sixth (16%) Sixteen percent of respondents predict a correction in nine to 12 months, while 4% say it will take more than a year. One percent do not believe it will happen and 6% didn't know.

When asked how much they expect the markets to fall, 31% of institutional investors and wealth managers say between 7.5% and 10% while 30% expect drops of 5%-7.5. Around a fifth say the market could fall be between 3% and 5%. A further 15% say the market correction could be as much as 10-12%, while 4% of respondents say the stocks will fall by up to 3%.

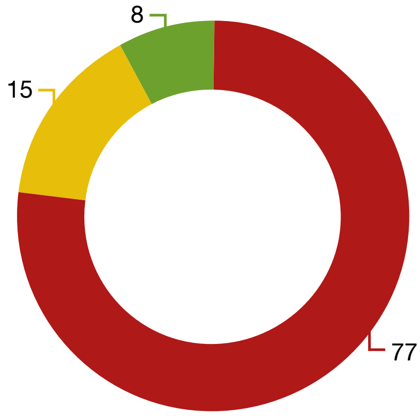
Looking at the asset classes most likely see the biggest inflows because of a market correction, survey respondents chose investment grade fixed income as benefiting the most, followed by private equity, Government bonds, alternative credit and then hedge funds.



When do You Expect a Stock Market Correction?	%*
Within three months	2
Three to six months	34
Six to nine months	37
Nine to twelve months	16
More than a year	4
It won't happen	1
Don't know	6

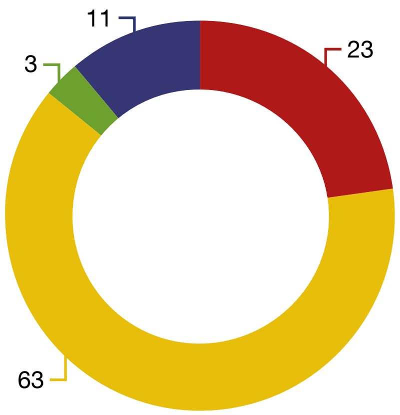
**Percentage of professional investors surveyed*

Asset Types with Highest Estimated Net Inflows in Eurozone (2023)



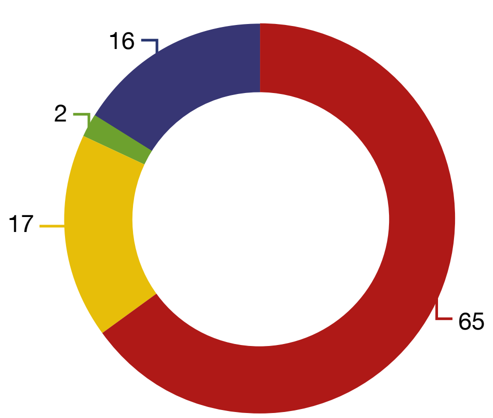
	Euro	%*
Bond Funds	111.3 billion	77
Money Market Funds	22.3 billion	15
Equity Funds	11.7 billion	8

Professional Investors' Expectation of Bond Rally



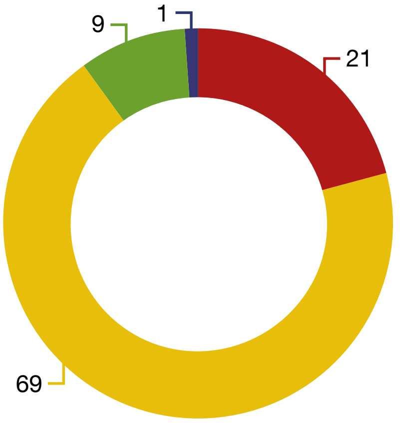
	%*
Very likely	23
Quite likely	63
Unlikely	3
Don't know	11

Equity Outflows Predictions



	%*
Increase slightly	65
Dramatic increase	17
Decrease	2
Stay the same	16

Expected Changes in Yields Over the Next 6 Months



	%*
Dramatic increases	21
Slight increases	69
Stay the same	9
Slight decreases	1

**Percentage of professional investors surveyed*

Conclusion

Interest rates have reached their highest levels for 15 years presenting investors with a clear opportunity to make a real, positive difference to their portfolios by investing in fixed income funds. Now that central banks have reined in their forecasts on further interest rate rises, it makes sense for investors to increase their allocations to the asset class.

A bond rally is more than likely as inflationary pressures start to ease and central banks are easing off on interest rate rises. There are clear return opportunities for investors in developed market investment grade fixed income which will in turn could lead to a bull run in the sector.

However as bond markets suffered a bloodbath in 2022, with the value of global bonds falling by more than 30% - their worst performance in over 200 years - it is understandable some investors have been under-exposed to fixed income. As yields return to their highest levels for a decade and a half, and equities continue to look volatile with a recession on the horizon, it could be time to consider increasing allocations to bonds.

The other issue to bear in mind is that while inflation is starting to slow, interest rates are still rising and consumers are not spending as much. Without that support, equities are vulnerable to a correction, and that is driving flows into other asset classes, especially fixed income.

The Melius Fixed Income Fund is ideally placed to meet investors' needs as it aims to achieve an attractive level of growth whilst respecting risk diversification. The objective of the fund is to maximise total returns consistent with preservation of capital and prudent investment management. The fund aims to outperform its benchmark, the iShares Core US Aggregate Bond (AGG) over a rolling three-year period by concentrating on a yield driven strategy that carries less pricing sensitivity to interest rate movements.

About Managing Partners Group

Managing Partners Group (MPG) is a multi-disciplined investment house that specialises in the creation, management and administration of regulated mutual funds and issuers of asset-backed securities for SMEs, financial institutions, and sophisticated investors. It currently manages funds with a gross value of $500m.

At the core of MPG's proposition is its shrewd and rigorous approach to managing money. The Senior Management Team of MPG has over 100 years of collective experience in managing assets. This strength in depth has enabled MPG to deliver steady, incremental returns over the years, even though periods of global austerity.

MPG's performance during challenging times is the strongest possible endorsement of its unique investment approach. As a result, institutional and private investors around the world are increasingly turning to MPG to provide an alternative to traditional asset managers.

Its Melius Fixed Income Fund is a regulated mutual fund that aims to achieve an attractive level of growth whilst respecting risk diversification. The objective of the fund is to maximise total returns consistent with preservation of capital and prudent investment management. In seeking to achieve its investment objectives, the fund will aim to outperform its benchmark, the iShares Core US Aggregate Bond (AGG) over a rolling three-year period by concentrating in a yield driven strategy that carries less pricing sensitivity to interest rate movements.

About the Research

Managing Partners Group commissioned the market research company Pureprofile to interview 100 investment professionals working for pension funds, insurance asset managers, family offices, other institutional investors and wealth managers with a total of €245 billion assets under management in the UK, US, Germany, Switzerland, UAE, Singapore and Hong Kong during July 2023.

MPG established 2003

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Fund Performance

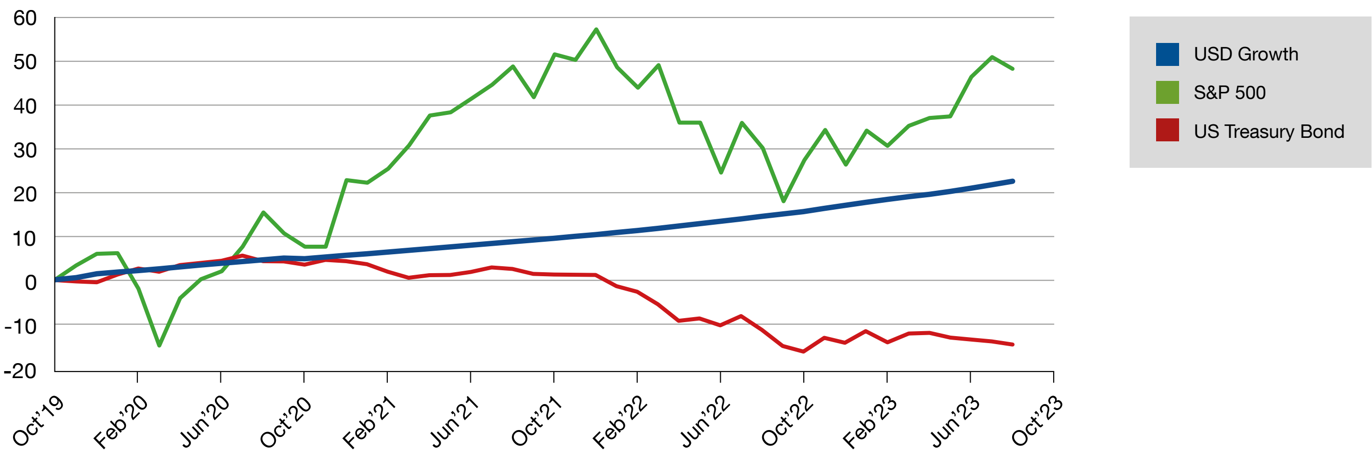
Melius
Fixed Income Fund

Fund performance as at valuation date 31st August 2023 (%)

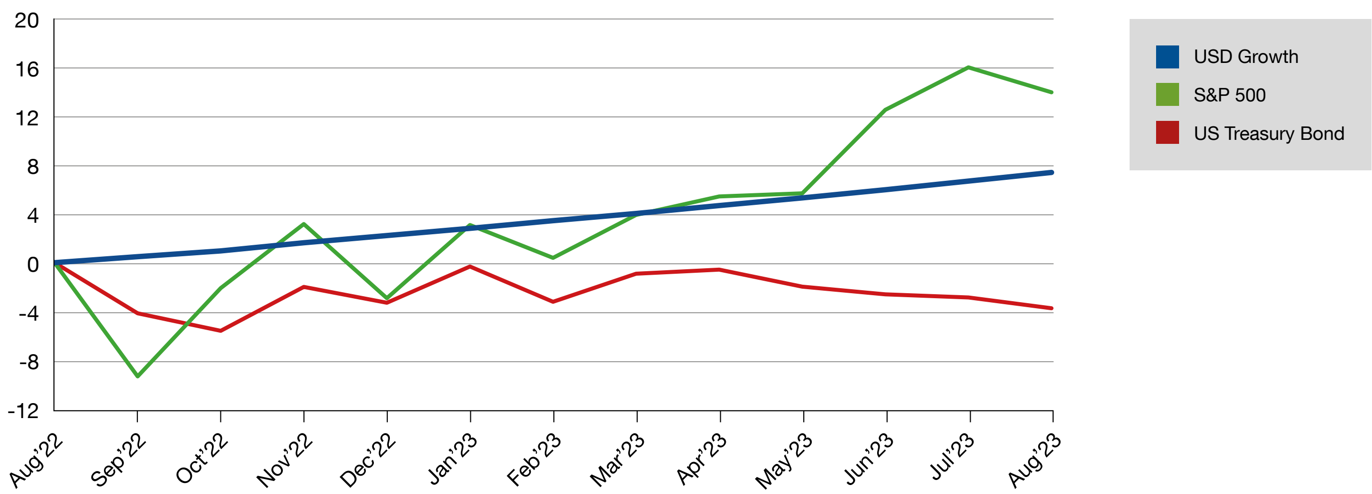
Share Classes	Share Price	1M	3M	6M	12M	YTD	CAGR[1]	Since Launch
USD Growth Class	123.0617	0.67	1.99	3.84	7.40	5.08	5.56	23.06
GBP Growth Class	120.1183	0.60	1.78	3.41	6.51	4.50	4.75	20.12
CHF Growth Class	118.5625	0.63	1.87	3.59	6.89	4.50	4.90	18.56
Benchmark	96.54	-0.90	-1.80	-0.56	-3.75	-0.46	-3.91	-14.68
Tracking Difference		1.57	3.79	4.40	11.15	5.54	9.45	37.74

Sharp Ratio 2.94

Performance Evolution • USD Growth Class[2] (%)

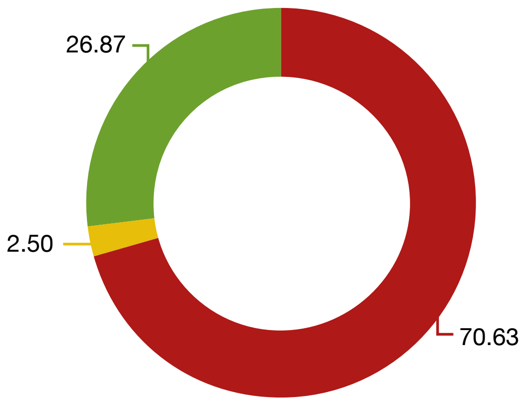


12 Month Performance Graph • USD Growth Class[2] (%)



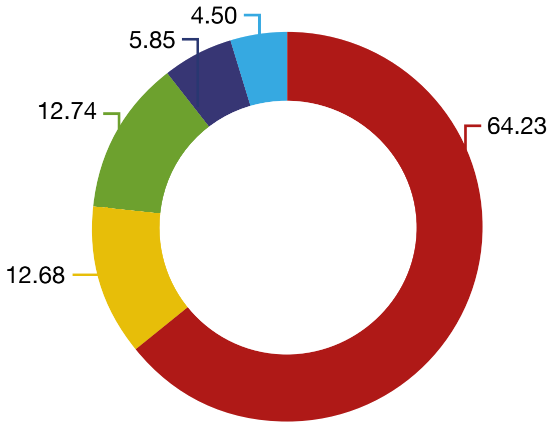
[1] Compound Annual Growth Rate
[2] Performance data quoted is net of fees

Asset Allocations (%)



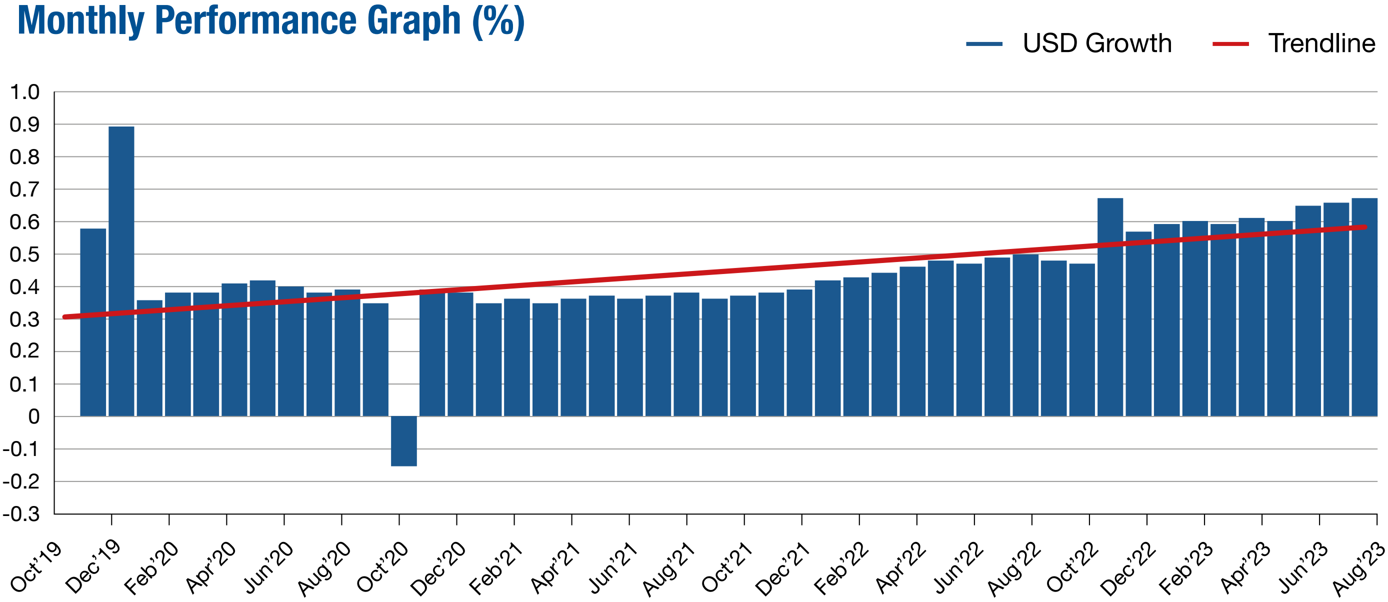
	Corporate	70.63
	Income	2.50
	High Yield	26.87

Geographic Allocations (%)

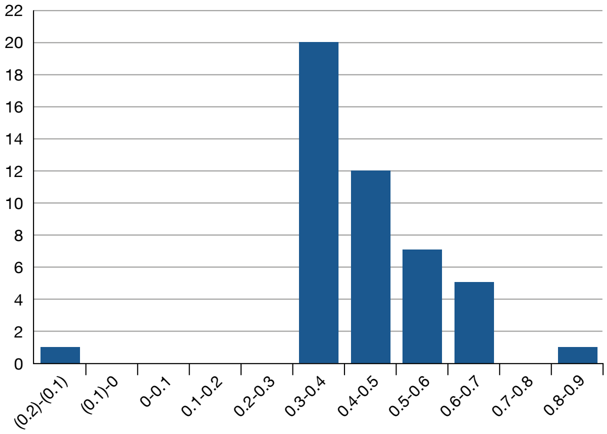


	USA	64.23
	United Kingdom	12.68
	Europe	12.74
	Switzerland	5.85
	Other	4.50

Monthly Performance Graph (%)

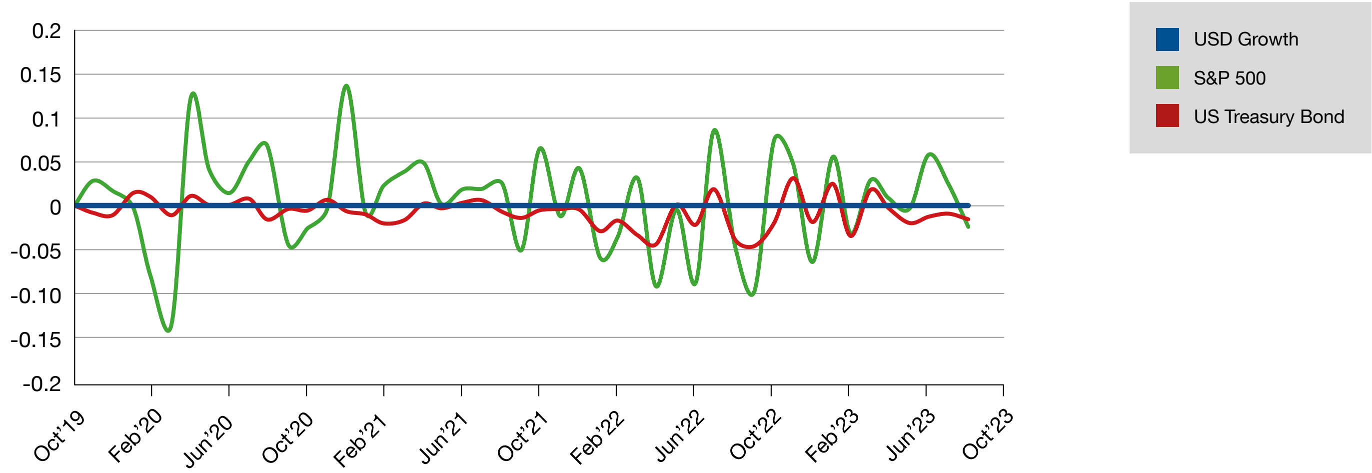


Distribution of Monthly Returns



Scope	Nº	%
(0.2 - (0.1)	1	2.17
(0.1) - 0	0	0
0 - 0.1	0	0
0.1 - 0.2	0	0
0.2 - 0.3	0	0
0.3 - 0.4	20	43.48
0.4 - 0.5	12	26.09
0.5 - 0.6	7	15.22
0.6 - 0.7	5	10.87
0.7 - 0.8	0	0
0.8 - 0.9	1	2.17
Total	**46**	**100.00**

Volatility Graph • USD Growth Class (%)



Dealing Codes

Share Class	ISIN	Bloomberg	Valoren
USD Growth Class	KYG596871148	MELFIUG KY	CH044825101
CHF Growth Class	KYG596871064	MELFICG KY	CH044825079
EUR Growth Class	KYG596871221	MELFIEG KY	CH044825123
GBP Growth Class	KYG596871304	MELFIGG KY	CH044825128

Share Price History (%)

USD Growth Class

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.59	0.60	0.59	0.61	0.60	0.65	0.66	0.67				
2022	0.42	0.43	0.44	0.46	0.48	0.47	0.49	0.50	0.48	0.47	0.67	0.57
2021	0.35	0.36	0.35	0.36	0.37	0.36	0.37	0.38	0.36	0.37	0.38	0.39
2020	0.36	0.38	0.38	0.41	0.42	0.40	0.38	0.39	0.35	-0.15	0.39	0.38
2019											0.58	0.89

CHF Growth Class

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.52	0.53	0.52	0.54	0.53	0.58	0.59	0.60				
2022	0.35	0.36	0.37	0.39	0.41	0.40	0.42	0.43	0.41	0.40	0.60	0.50
2021	0.28	0.29	0.28	0.29	0.30	0.29	0.30	0.31	0.29	0.30	0.31	0.32
2020	0.39	0.43	0.43	0.38	0.39	0.37	0.35	0.36	0.34	0.11	0.36	0.31
2019											0.56	0.58

GBP Growth Class

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	0.55	0.56	0.55	0.57	0.56	0.61	0.62	0.63				
2022	0.38	0.39	0.40	0.42	0.44	0.43	0.45	0.46	0.44	0.43	0.63	0.53
2021	0.31	0.32	0.31	0.32	0.33	0.32	0.33	0.34	0.32	0.33	0.34	0.35
2020				0.39	0.40	0.38	0.36	0.37	0.36	0.12	0.37	0.34

List of Honours

Corporate America Today Annual Awards
Asset Management CEO of the Year 2023 - **MPG**

ACQ5 Global Awards
Asset Management Company of the year 2019,2020 – UK and Europe - **MPG**

Corporate Vision Magazine Corporate Excellence Awards
Best Alternative Asset Management Firm 2021 Switzerland - **MPG**
Most Influential Leader in Asset Management 2019 Switzerland - **MPG**

Acquisition International Global Awards
Most Outstanding Asset Management Company 2020 – Europe - **MPG**

M&A Today Global Awards
Best in Insurance Linked Investments 2019 - **MPG**

Corporate LiveWire Global Awards
Asset Management Group of the Year 2019,2020,2021 – UK - **MPG**

The European Business & Finance Awards
Alternative Investment Firm of the Year 2018 – Europe - **MPG**

Global CEO Excellence Awards
Asset Management CEO of the Year 2019

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