

# Diversified Fixed Interest Fund Factsheet

This document provides you with information about the Fund.

The City Financial Diversified Fixed Interest Fund seeks to achieve an above-average income primarily from bond and bond related investments, while retaining the flexibility to mitigate the risks to capital. The manager's macro views are implemented through funds, exchange traded funds, investment trusts, currencies, and derivatives, drawing on a strong fund research capability.

## SUITABILITY

- The Fund is suitable for investors seeking an above-average level of bond income that is also managed with a view to mitigating the losses periodically associated with investments in higher-risk bonds.
- The Fund can be used as an income-oriented solution in its own right or at the heart of a range of investment selections.

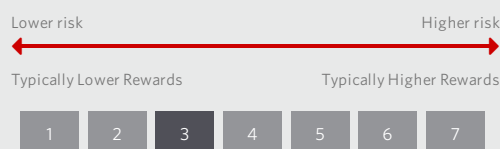
## KEY BENEFITS OF INVESTMENT STRATEGY

- The Fund benefits from the manager's flexibility to invest across the entire bond universe, according to his macro views, to deliver a healthy income.
- The combination of qualitative and quantitative inputs to all stages of the process enhances the rigour of the analysis.
- The manager's ability to use derivatives to undertake hedging activities helps him mitigate downside risk.

## RISK COMMENTARY

The Fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 3. This is a regulatory measurement that is, where possible, calculated from the volatility of the Fund's weekly performance over a five-year period. A score of 3 means the Fund's historic volatility is between 2% and 5%.

The Fund's realised standard deviation is close to the bottom end of this range. The Fund is focused on delivering an attractive level of income, paid monthly, and tends to have a bias to higher yielding assets. As such, there can be some capital volatility and we would expect the Fund to exhibit higher volatility than the IMA £ Strategic Bond sector average.



## KEY FUND FACTS

Inception date:	07 March 2014
Manager:	Mark Harris
Fund size:	£20.8m
Fund domicile:	United Kingdom
IA sector:	IA £ Strategic Bond
Share class types:	Acc and Inc
XD dates:	31 March and 30 September
Dividend distribution:	Last day of each month
Charge details:	see OTHER FUND FACTS table

## FUND DESCRIPTION

### Formal investment objective

The investment objective is to provide a high level of income, primarily through investment in a concentrated portfolio of fixed interest securities. Although the main objective is to provide a high level of income, consideration will also be given to capital return.

### Investment team

City Financial's Multi Asset Team brings together experts at macro-economic research, fund management and fund analysis. Their range of experience and expertise sets the team apart from their peers.

Mark Harris, Head of the Multi Asset team, has managed the Fund since inception. He previously managed over £1 billion in assets at New Star Asset Management (subsequently Henderson), gaining recognition through a range of industry awards and ratings.

### Investment philosophy

The manager believes that he can deliver above-average income over a market cycle, while mitigating capital volatility, by investing across the bond universe. He rotates the Fund's holdings through different sectors and regions according to his macroeconomic outlook and his expectations for fixed income markets. He will use derivatives, including options and futures, to help protect the portfolio from tail (extreme) or event risk.

### Investment process

The approach is based on rigorous quantitative and qualitative assessments of the macro-economic environment, market conditions and funds. Quantitative models, investment bank research and independent analysis are key inputs in formulating top-down expectations and identifying where they are not reflected by bond market pricing. The research encompasses analysis of global economic growth, central bank policies, debt dynamics and market valuations. The analysis and findings are challenged and tested at a monthly team strategy meeting.

In assessing funds for the portfolio, we use a range of systems to undertake style analysis and attribution. We then undertake face-to-face manager interviews to extend our analysis. These interviews also inform us of the manager's understanding of the risks being run and the portfolio construction process. A report is produced explaining past returns, with supporting evidence, and forecasting future performance. Fund selection is reviewed at a formal weekly team meeting.

### Portfolio construction and risk controls

Risk is at the heart of the process, in line with the manager's desire to mitigate the risk to capital alongside the delivery of an attractive income. Risk is monitored continuously for underlying positions, which are subject to stop losses, and for the portfolio in aggregate, to ensure the avoidance of unintended risks. Derivatives will also be used to adjust the portfolio's risk profile, including to manage duration and to hedge specific exposures.

The Fund's sector allocations are dependent upon the top-down analysis process. The manager seeks to identify diversified sources of income where possible. The team models the expected income from the portfolio to set a steady monthly payment level that reflects the market opportunity.

**MANAGER COMMENTARY**

Global asset markets delivered mixed performance in March 2017. Economic data remained robust but many markets and sectors suffered from pronounced rotations as investors strived to assess the sustainability of the upturn that has been witnessed in equity markets and economic activity since Q2 2016. This was particularly evident in further underperformance from many sectors that had led markets higher in H2 2016, including US banks and Japanese value stocks.

Global equities were marginally positive over the month, as the MSCI World Index was up 0.12%, but healthy returns from European and Asian indices were broadly offset by weakness in the US and Japan. The S&P 500 Index was down 0.88% and the MSCI Japan Index was down 1.19%, while the MSCI Europe ex UK Index was up 4.28%, the MSCI Emerging Markets Index was up 1.51% and the MSCI AC Asia Ex. Japan Index was up 2.24%. UK equities were positive but to a lesser degree than continental European markets - the MSCI UK Index was up 0.88%.

The outperformance from emerging markets was supported by weakness in the US dollar. The Dollar Index ended the month at 100.35 (down 0.76%), alleviating concerns about excessive strength despite another rate hike from the Federal Reserve. Sterling was strong even though Article 50 was formally invoked, reflecting excessive negative positioning in the currency. GBPUSD ended the month at 1.255 (up 1.37%).

Despite intra-month volatility, government bonds in the UK and the US were little changed over March. In keeping with the stronger performance from riskier assets in Europe ex UK as election risks appeared to fade, German government bond yields rose more meaningfully. At the end of the month, the UK government 10-year bond yield was down 1bps at 1.14%, the US government 10-year bond yield was unchanged at 2.39% and the Germany government 10-year bond yield was up +12bps at 0.33%.

High yield bonds were marginally negative in local currency terms, with the US market mostly recovering from initial weakness despite renewed oil price weakness - WTI was down 7.04% in US dollar terms.

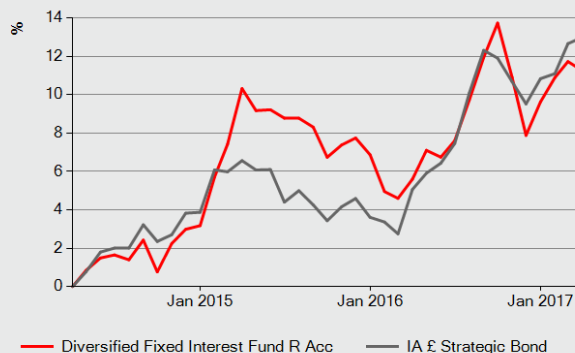
It is our firm belief that we are working through a defining moment of change that started in the summer of 2016. In our opinion, we have made moved from a 'vicious' deflationary cycle that centred on extreme US dollar strength and tightening liquidity building on each other, to a 'virtuous' cycle where one good thing will build upon another.

It is very evident that the global growth outlook is improving - a wide range of survey data and some hard data are strengthening. Against the backdrop of continuing improvement in the global economy and a tight labour market, we believe that the Fed will have to raise US rates as shown by their estimates but that markets are underestimating this potential. Should this be correct, government bonds should weaken and it is highly likely that the US dollar will strengthen further against most developed market currencies, as interest rate differentials will widen. In simple terms, rates will be going up in the US at a much faster pace than in other developed markets.

In the immediate future, there is most likely to remain a volatile tug of war between the different constituencies of investors in the first half of 2017, i.e. those who believe in the recovery and those who believe in a continued deflationary environment. Whilst change in policy stance is definitely here, investors have yet to differentiate and price all of these divergences. There has only been a grudging acceptance and 'buy in' to the recovery and equity outperformance amongst US investors.

It will take time for these divergent views to be resolved by economic data but we stand by our longer-term view that equity markets will be higher this year, bonds have ended their 35-year bull market and the US dollar should strengthen in Q2 2017

**PERFORMANCE VS IA £ STRATEGIC BOND**



	1 year to 31/03/2017	1 year to 31/03/2016	1 year to 31/03/2015	1 year to 31/03/2014	1 year to 31/03/2013
Fund (%)	5.36	-4.29	10.33	-	-
IA Sector (%)	7.55	-1.41	6.57	-	-
Quartile	4	4		-	-

**CUMULATIVE PERFORMANCE (%)**

	1 year	3 years	5 years
Fund (%)	5.36	11.26	-
IA Sector (%)	7.55	13.00	-
Quartile	4		-

**NOTE:**

The EFA OPM Fixed Interest Fund (launched 23 December 2003) merged into the Diversified Fixed Interest Fund on 8 March 2014. Please contact City Financial for further details of earlier past performance of the EFA OPM Fixed Interest Fund.

**All data sourced from Morningstar Direct, Bloomberg and City Financial as at 31/03/2017, unless otherwise stated.**

The information contained in this document should not be construed as investment advice, it is not an invitation or inducement to any person to purchase shares in our funds. Fund performance excludes the effect of initial charge and assumes any income reinvested net of UK tax. All information in this factsheet is current at the time of publication and may be changed in the future. Past performance is not a guide to future performance. The value of shares and the income generated from them can fall as well as rise and are not guaranteed and investors may not get back the amount originally or subsequently invested. Values may be affected by fluctuations in exchange rates where assets of our funds are denominated in currencies other than sterling. Issued by City Financial Investment Company Limited. Registered office is 62 Queen Street, London, EC4R 1EB. Authorised and regulated by the Financial Conduct Authority with registered number 189302. This Fund is not offered, sold or distributed in the United States or to US persons.

## FINANCIAL INFORMATION

### Prices

Class R Acc	105.25p
Class R Inc	100.13p
Class A Acc	175.05p
Class A Inc	90.69p
<b>Total net assets</b>	<b>£20.8m</b>

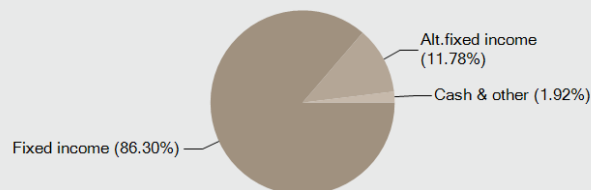
## OTHER FUND FACTS

ISIN - Class R Acc	GB00BHD62Q31
ISIN - Class R Inc	GB00BHD62R48
ISIN - Class A Acc	GB00BZ1KRB31
ISIN - Class A Inc	GB00BZ1KRC48
Fund type	UCITS
Dealing and valuation frequency	Daily
Valuation time	7:00 am
Accounting year-end	30 September
Settlement	T+4
Base currency	GBP (Sterling)
OCF* (%)	CI R: 1.25, CI A: 1.72
Initial charge (%)	0.00 (all share classes)
Performance fee	None
Depository	BNY Mellon Trust & Depository (UK) Limited
Registrar	Capita Financial Administrators

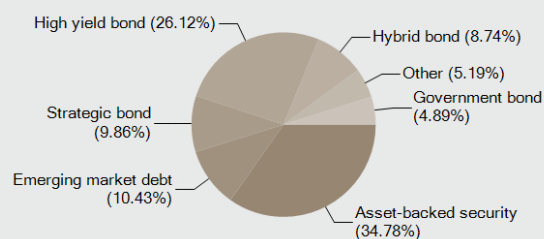
\*On-going charge figure (OCF) – combines the Annual Management Charge (AMC) with the Fund's other expenses in running the fund, e.g. custodian fees, but excludes portfolio transaction costs.

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## ASSET ALLOCATION



## FIXED INCOME BY TYPE



## TOP 10 HOLDINGS

Angel Oak Multi-Strategy Income Fund	Asset-backed security
Schroder Monthly High Income Fund	High yield bond
Volta Finance	Asset-backed security
TwentyFour Select Monthly Income Fund	Strategic bond
VPC Specialty Lending Investments	Alt. fixed income
Artemis High Income Fund	Hybrid bond
AXA Global High Income Fund	High yield bond
Aberdeen Global Brazil Bond Fund	Emerging market debt
Real Estate Credit Investments Preferred	Asset-backed security
Toro	Asset-backed security

Please note figures may not add up to 100% due to rounding. The figures above are rounded to second decimal place.

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Should you have a complaint, please contact Ben Ellenbogen at City Financial Investment Company Limited, 62 Queen Street, London, EC4R 1EB, Tel: +44 20 7451 9600 or email ben.ellenbogen@cityfinancial.co.uk with a copy to Compliance@cityfinancial.co.uk. Allowable complaints are accepted in the language of the complainant and City Financial will arrange for a prompt professional translation of the complaint.

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