

Monday, October 24, 2022

We have performed an analysis of the effect where the existing allocation to the Blackrock US Aggregate Bond Index Fund (USBOND) is augmented by an allocation to the FHIM Opportunity Strategy (FHIM) from January 2018 to the end of September 2022.

Comparison

We have examined the overall portfolio performance, pre and post the inclusion of FHIM. We are using daily Unit pricing as our base valuation data. For USBOND, we have used daily unit pricing before fees or spread with adjustment for distributions which are retained (not reinvested). For FHIM, this strategy is after fees and all distributions are constant currency retained and not reinvested.

Historical daily correlation of FHIM to USBOND: -0.0204 (-2.04%) R Squared: 0.000416 (0.0416%)

On a hypothetical allocation of 50% (USBOND) and 50% (FHIM) over the 4 plus years there is an improvement to the risk adjusted returns. Sharpe and Sortino improved significantly by 1.48 (565%) and 2.46 (738%) The max draw down decreased by 11.43% (an improvement of 76%) while improving returns 1341%. This can be explained by the FHIM strategy where investments are made into strong stable income streams that are uncorrelated to equity or credit markets.

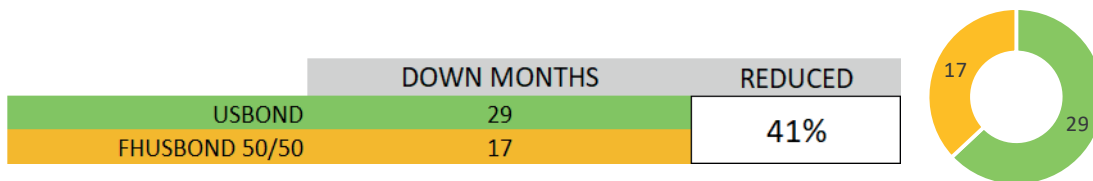
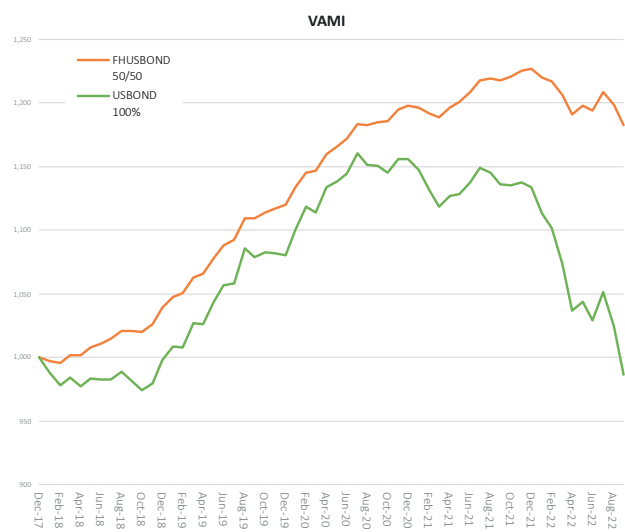
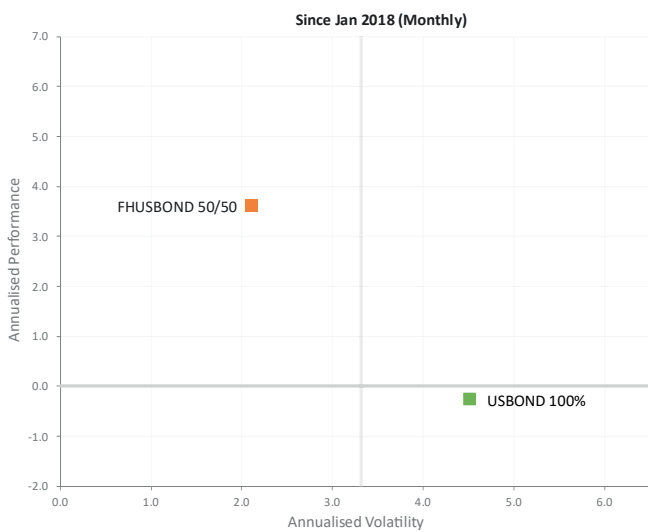
The FHIM returns are asset backed and fixed at 8% as an example which supports a defensive approach to managing a basket of Fixed Income holdings.

The improved risk adjusted returns are reflected in the smoothing of the overall returns (refer Table of results)

	USBOND 100% allocation	USBOND with 50% FHIM allocation	Change
CAGR	-0.29%	3.60%	+3.89%
Sharpe Ratio	-0.26	1.22	+1.48
Sortino Ratio	-0.33	2.13	+2.46
Max Drawdown (EOM)	-15.02%	-3.59%	+11.43%
2018	-0.17%	3.90%	+4.07%
2019	8.25%	7.81%	-0.44%
2020	6.96%	6.93%	-0.03%
2021	-1.86%	2.44%	+4.30%
2022 End September	-13.04%	-3.59%	+9.45%

The noticeable examples of FHIM's positive impact with an allocation of 50% USBOND and 50% FHIM is:

- | | |
|-----------------------------------------|----------------|
| 1. 3.89% increase in CAGR - | Improved 1341% |
| 2. 11.43% reduction in Max Drawdown - | Improved 76% |
| 3. 1.48 increase in the Sharpe Ratio - | Improved 565% |
| 4. 2.46 increase in the Sortino Ratio - | Improved 738% |



The analysis supports the conclusion that downside volatility is reduced whilst increasing the return in this scenario.

In maintaining a consistent fixed income revenue, improvements in the overall risk adjusted return were seen.

Regards



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Date sourced from: iShares