August 2020

# CQS New City High Yield Fund

## KEY FUND FACTS[1]

**Fund Manager**
Ian 'Franco' Francis

**Launch Date**
October 2004

**Total Gross Assets**
£233.9m

**Reference Currency**
GBP

**Ordinary Shares**
Net Asset Value: 46.81p
Mid-Market Price: 47.70p

**Yield (estimated)**
9.35%

**Gearing**
14.45%

**Premium**
1.90%

**Ordinary Shares in Issue**
432,451,858

**Annual Management Fee**
0.8% p.a. on assets up to £200 million
0.7% p.a. on assets over £200 million and up to £300 million
0.6% p.a. on assets greater than £300 million

**Bloomberg**: NCYF LN
**Reuters**: NCYF.L
**Sedol:** B1LZS51 GB

**Year End**
30 June

**Contact Information**
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**Company Broker**
N+1 Singer
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**AGM**
December

**Dividend Information**

**2019/20**

1.00p interim paid 29 Nov 2019
1.00p interim paid 28 Feb 2020
1.00p interim paid 31 May 2020
1.46p interim payable 28 Aug 2020

*See overleaf for previous Dividend information*

**Fiscal Year-End**
30 June

**Ian Francis**
Portfolio Manager

## Fund Description

The objective of the CQS New City High Yield Fund is to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

## Fund Management

Founded in 1999, CQS is a $19.5bn[2] global multi-strategy asset management firm.
The Fund is managed by Ian 'Franco' Francis, supported by the CQS credit analyst team.

## Ordinary Share and NAV Performance[3]

| | 1 Month (%) | 3 Month (%) | 1 year (%) | 3 Year (%) | 5 Year (%) | 10 Year (%) |
|---|---|---|---|---|---|---|
| NAV | 0.58 | 6.55 | (6.44) | 1.07 | 23.63 | 82.13 |
| Share Price | 0.00 | 4.48 | (12.91) | (3.34) | 19.92 | 71.10 |

## Investment Commentary[4]

For financial markets August is usually a quiet month for volume of trades, which was certainly the case in the UK. Although the flow of data does not cease and the sentiment as evidenced by the IHS Markit/CIPS Flash Composite PMI survey showed the sharpest increase since October 2013 registering a figure of 60.3 up from July's 57.0, we are coming back from very distressed levels. There are still concerns over how long and how much real recovery in the economy is taking place, which can be evidenced by the shrinking GDP figure of down 20.4% in the second quarter and increasing layoffs of workers. Another comment from the PMI survey was that expectations going forward were still subdued, citing the outlook for the pandemic and its ongoing effect on the economy. The negative effect on the real economy is highlighted by the IHS Markit UK Household Finance index that fell further in August to 40.8 from 41.5 in July again indicating worsening personal finances in the coming 12 months. To the person in the street their position does not compute when comparing with levels seen in financial assets or the recent spike in residential house prices and increased turnover due to the short term change in stamp duty until March 2021. This is reminiscent (for those of us who are old enough to remember) of Nigel Lawson's March 1988 budget changing MIRAS to be on the property and not the individual from the following August, creating a bubble as many rushed to jump on the property ladder or move higher up just before the snake of higher interest rates struck the next year, forcing many people into negative equity and in some cases become distressed sellers. What is different this time? Maybe the likelihood that interest rates are remaining lower for much longer, but the spectre of higher unemployment is out there. As regards other financial assets? Central banks cannot afford any market meltdowns at the moment and will no doubt be doing "whatever it takes" for some time yet. So it is probable that this disconnect between financial assets and the underlying economy will continue for some time to come.

The Eurozone economy took a marked slowdown in August with companies remaining very cautious and keeping staffing levels low, with recovery being eroded by the increase in Covid-19 cases in many parts of Europe and the associated re-imposition of some restrictions being put in place. Whilst there was no specific comment on Brexit, the news from the negotiations does not inspire confidence that we will end up with anything other than a hard exit, which is not good for Europe or the UK at a time when we all need to work together to get back to a functioning economy.

In the United States, away from the political noise we will be experiencing in the run up to the Presidential election, the Federal Reserve Chairman Jerome Powell announced a major shift in policy regarding how it sets interest rates by removing its long term strategy of pre-emptive raising of interest rates to stave off inflation. This will effectively keep interest rates lower for much longer with the hope that inflation (the scourge of many generations) does not run rampant: only time will tell how long? Probably five years by which time it will probably be the problem of a new President and Chair of the Federal reserve. Away from policy change, Americans continued to get back to work with 1,763.000 jobs added in July with 10.2% of the workforce still unemployed, still a long way to go before anything like pre-pandemic levels of employment are reached but going in the right direction. This improving trend was confirmed in the IHS Markit flash US Composite PMI survey that came out towards the end of the month, recovering to an 18-month high of 54.7. Respondents to the survey signalled an increase in hiring in August over July in both manufacturing and service sectors. It should also be noted with reference to the earlier comment on inflation and the Federal reserve change in policy, that input and output prices were pushing higher.

The company paid its final dividend of 1.46p at the end of the month up from 1.45p last year. The only transactions during the month was to roll the Navigator Holdings 7 ¾% 2021 bond into the replacement bond of 8% with a date of 10th September 2025.

*Source: CQS. Please refer to page 3 for sources relating to relevant footnotes*

## KEY FUND FACTS *(continued)*

**Dividend Information *(continued)***

**2007/08** Total 3.57p
**2008/09** Total 3.65p
**2009/10** Total 3.75p
**2010/11** Total 3.87p
**2011/12** Total 4.01p
**2012/13** Total 4.10p
**2013/14** Total 4.21p
**2014/15** Total 4.31p
**2015/16** Total 4.36p
**2016/17** Total 4.39p
**2017/18** Total 4.42p
**2018/19** Total 4.45p
**2019/20** Total 4.46p

**Investor Report**
Monthly Factsheet

**Annual Report & Accounts**
Published October

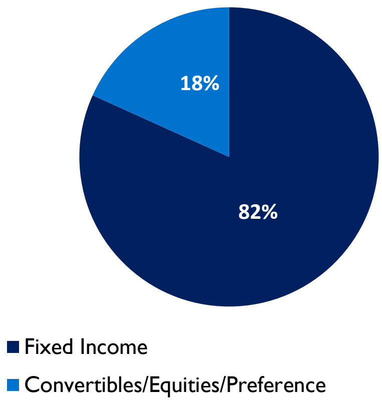
## AIFMD Leverage Limit Report (% NAV)

| | Gross Leverage (%)[5] | Commitment Leverage(%)[6] |
|---|---|---|
| CQS New City High Yield Fund | 117 | 117 |

[5]Source: CQS, as at 28 August 2020. For methodology details see Article 4(3) of Directive 2011/61/EU (AIFMD) and Articles 6, 7, 9 and 10 of Delegated Regulation 231/2013.
[6]Source: CQS, as at 28 August 2020. For methodology details see Article 4(3) of Directive 2011/61/EU (AIFMD) and Articles 6, 8, 9, 10 and 11 of Delegated Regulation 231/2013.

## Portfolio Analysis [1, 7]

**Breakdown by asset Class**




## Top 10 Holdings (%) [1, 8]

| Name | (% of NAV) |
|---|---|
| GALAXY FINCO LTD 9.25% 19-31/07/2027 | 5.93 |
| CYBG PLC 16-31/12/2049 FRN | 5.37 |
| PUNCH TAVERNS 7.75% 14-30/12/2025 | 5.21 |
| ONESAVINGS BANK 17-31/12/2059 FRN | 4.64 |
| SHAWBROOK GROUP 17-31/12/2059 FRN | 3.93 |
| AGGREGATED MICRO 8% 16-17/10/2036 | 3.54 |
| JUST GROUP PLC 8.125% 19-26/10/2029 | 3.40 |
| CO-OPERATIVE FIN 19-25/04/2029 FRN | 3.38 |
| REA FINANCE 8.75% 15-31/08/2025 | 3.11 |
| GARFUNKELUX HOLD 11% 15-01/11/2023 | 3.05 |
| **Top 10 Holdings Represent** | **41.56** |

*The Company has exposure to 110 issues*
*All holdings data are rounded to two decimal places*
*Total may differ to sum of constituents due to rounding*

Source: CQS. Please refer to page 3 for sources relating to relevant footnotes.

**Source**: [1]BNP Paribas Securities Services S.C.A, as at 28 August 2020. [2]CQS as at 28 August 2020. [3] BNP Paribas Securities Services S.C.A, total return performance based on bid prices. These include historic returns and past performance is not a reliable indicator of future results. The value of investments can go down as well as up. Please read the important legal notice at the end of this document. [4]All market data sourced from Bloomberg unless otherwise stated. Returns quoted in local currencies unless otherwise stated. The Company may have since exited some / all of the positions detailed in this commentary. [8]All holdings data are rounded to two decimal places. Total may differ to sum of constituents due to rounding. The Fund is regulated by the Jersey Financial Services Commission.

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L20-465 / 09.20

Signatory of: PRI Principles for Responsible Investment

SBai SIGNATORY Jan '20