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CQS New City High Yield Fund Ltd
17 April 2025

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CQS New City High Yield Fund Limited

("NCYF" or the "Company")

Monthly Factsheet as at 31 March 2025

The Company's Fact Sheet as at 31 March 2025 has been submitted and is available for inspection on the Company's website, https://ncim.co.uk/cqs-new-city-high-yield-fund-ltd/.

The investment manager updates on the wider macro-economic environment and on key changes to the portfolio positions as at 31 March 2025.

Please Note: This report covers March 2025, pre the "Liberation Day" tariffs from President Trump and subsequent market gyrations.

Market focus in the UK in March centred around the Chancellor's Spring Statement. It included welfare cuts and large cuts to be made from all government departments with the hope of saving 15% in administration costs by 2030, including a reduction in the headcount by 10,000 jobs. Also included was a major increase to the defence budget as a result of the increased Russian threat and lessening support of the US to its NATO allies. The latter element is to be funded by the decrease in the overseas aid budget from 0.5% to 0.3% of gross national income by 2027. What rang the most alarm bells was the Office for Budget Responsibility (OBR) cutting 2025 growth forecasts from 2% to 1% and forecasting 3.2% average inflation for 2025. These forecast cuts point to the danger of possible stagflation unless the private sector can increase efficiency over and above the inflation-busting rises in minimum wages, National Insurance and business rates arriving in April. This is not likely to be an easy task with President Trump announcing 25% tariffs on all imported vehicles from the 2nd April, coming soon after Rachel Reeves Spring Statement, which could put a potentially large dent in UK exports; just when export earnings are needed the most. At the time of writing, the raft of tariffs expected on 2nd April had not been announced. Further comments from the OBR suggested a close-to-even chance of the spending targets being met. They put the chances of the UK keeping within the spendings target at 54% and the other rule for minimising public debt at 51%.[1]

The European economy appeared to witness the first green shoots of recovery in early to mid-March. The standout element was the manufacturing sector which grew for the first time in nearly 3 years. Meanwhile, the services sector hit a seven-month high and, as a result, the period of rising unemployment dating back to August 2024 seemed to be coming to an end. This is when measured across the whole zone, although France and Germany were still experiencing reductions in staff levels. European inflation was still falling, down to 2.2% in March from 2.3% in February. European economies are increasing defence spending across the board as the US is seen to be stepping back from its support of European allies. This will have an ongoing positive effect on their defence industries. On the 26th March, President Trump announced a 25% tariff on all autos and auto parts being imported into the US. This will likely have a large negative effect on Germany, France, Sweden, Slovakia and Italy, and comes on top of the large dent being made on European auto manufacturers by the influx of cheap and efficient electric vehicles (EV's) from China.

The economy in the US appeared to fall back to a two-speed mode. It is still showing good strength overall, but manufacturing fell back into decline as the front running of potential tariffs increased output in January and February. Overall business confidence has fallen to one of the gloomiest for the last three years due to the spectre of future tariffs, major Federal spending cuts and possible inflation as a result of these tariffs. Manufacturing has seen its cost base increase at the fastest rate for two years and has been passing on these inflated costs to their customer base. Fortunately, the service sector remains at subdued levels, which will please the Federal Reserve when they look to keep on track for future rate cuts. The main swathe of tariffs is being announced on the 2nd April, and their extent and effects will be covered in next month's factsheet. In March, 25% tariffs were imposed on Canada and Mexico with a lesser 10% rate being applied to energy and potash. For China, a further 10% was added on top of the 10% levied in February.

For the Company's portfolio, we continued to downsize the holding of Co-Op Bank 11 3,4% 2034, with the proceeds being reinvested into Aareal Bank 9.875% perpetual. We increased holdings of SP Cruises 11.5% 2030and reduced exposure to Selecta Group 8% as a result of our change in view of the group's prospects.

1 Source: Office for Budget Responsibility, 'Economic and fiscal outlook', March 2025.

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For Further Information

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About CQS New City High Yield Fund Limited

CQS New City High Yield Fund Limited aims to provide investors with a high dividend yield and the potential for capital growth by investing in high-yielding, fixed interest securities. These include, but are not limited to, preference shares, loan stocks, corporate bonds (convertible and/or redeemable) and government stocks. The Company also invests in equities and other income-yielding securities.

Since the Fund's launch in 2007, the Board has increased the level of dividends paid every year. As at 31 December 2024, the Company's dividend yield was 8.79%. In addition to quarterly dividend payments, the Fund seeks to deliver investors access to a high-income asset class across a well-diversified portfolio with low duration to help mitigate interest rate risk.

Further information can be found on the Company's website at https://ncim.co.uk/cqs-new-city-high-yield-fund-ltd/

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