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# Close Select Fixed Income Fund

## Monthly fund manager update

April 2019

### Performance

The Close Select Fixed Income Fund returned 0.81% in April, and 3.91% YTD. In comparison, the IA Sterling Strategic bond sector returned 0.65% in April, and 4.35% YTD. The Fund remains very conservatively positioned versus the strategic bond sector (i.e. low duration and strong average credit rating).

### Macro backdrop

Macroeconomic data in April bucked the trend of the past 6-months – offering few surprises and a generally positive tone. Even Brexit-related news-flow was subdued following the decision to push back the date by which the UK must decide how and if to exit the European Union to 31st October 2019.

On the UK macro side, data showed tentative signs of improvement (albeit from a relatively weak base). GDP growth in the 3-months to February 2019 was +0.3% (and the prior 3-month period to January 2019 was revised up to +0.3%); inflation remained stable at 1.9%; and unemployment remained stable at 3.9%. Only PMI survey data offered any significant volatility, as manufacturing data was strong (most likely a consequence of pre-Brexit stockpiling by diligent businesses), but services weakened to the lowest level since July 2016. While we expect the Bank of England to maintain the base rate at 0.75% in May (and not make any changes with regards to quantitative easing), we also believe that growth and inflation forecasts could be upgraded.

In the US, macro data rebounded strongly after a weak Q4 2018. Q1 2019 Annualised GDP growth was +3.2% (versus the Q4 2018 reading of +2.2%); inflation increased to +1.9% (versus February 2019 figure of +1.5%); and PMI

survey data was generally weaker - albeit still relatively strong in absolute terms. Unemployment remained stable at 3.8% and average employee earnings decreased slightly to a still strong +3.2%.

In the Eurozone, data also improved slightly versus the negative trend of the past 6-months, though remains weak. Q1 2019 GDP growth improved to +0.4% (versus Q4 2018 reading of +0.2%); inflation was stable at 1.4%; and unemployment was stable at 7.8%. PMI survey data remained weak however – with the manufacturing sector especially feeble – which is likely to be a consequence of ongoing global trade tensions.

### Portfolio activity

Turning to portfolio activity, we continued to execute the 3-pillar strategy commenced in March 2019. Firstly, we took advantage of buoyant markets and increasingly rich valuations to further de-risk the portfolio. We did this by selling holdings in the Fund's few remaining higher beta bonds. Secondly, we boosted the attractive yield / duration characteristics of the fund by adding to a series of existing short duration holdings at attractive levels (Shawbrook 2020 at c. 5% yield; Trafigura 2023 at c. 7% yield; and CYBG 2021 at c. 5% yield). And thirdly, our research efforts continue to generate new ideas, leading to new positions in Admiral Insurance (1.3% portfolio weighting) and Bank of Ireland (1.0% portfolio weighting).

On the portfolio construction side, duration reduced slightly to 3.3 years (0.5 years of which is a single Gilt holding), while the yield on the fund reduced to 4.1% given the strong positive returns on the month. We continue to believe that the combination of short duration.

and a 4% + yield offers the Fund protection from future volatility.

## Outlook and strategy

While 2018 saw a significant re-pricing of corporate bonds – pushing valuations to near fair value levels for the first time since June 2016 - valuations have rallied since December 2018. Indeed, High Yield spreads have rallied c. 150bps from the January 2019 nadir, while BBB spreads have rallied 51bps since 10th December 2018. As a result, spreads again appear rich (sterling BBB credit spreads are now 179bps, versus 5yr average of 183bps; 10yr average of 238bps; and 20yr average of 216bps). In order to ensure capital preservation and deliver a high

level of monthly income, we continue to seek out the best risk:reward ideas across investment grade, unrated and high yield bond sectors. We maintain our focus on stock selection reinforced by in-depth credit research, and continue to favour shorter duration corporate bonds in GBP and USD.

## Other news

In April 2019, co-manager Stephen Hayde was shortlisted for the FE Strategic Bond Manager of the Year award, with results due in May 2019. The award recognises the strong performance of the fund and more importantly, its low volatility and strong risk-adjusted returns. Indeed, the Close Select Fixed Income Fund is one of very few funds to achieve the FE “5 Crowns” rating.

## Close Select Fixed Income Fund discrete performance as at 30 April 2019

	YTD	2018	2017	2016	2015	2014
<b>Close Select Fixed Income Fund</b>	<b>3.9%</b>	<b>-2.0%</b>	<b>7.4%</b>	<b>8.0%</b>	<b>1.7%</b>	<b>9.0%</b>
IA £ Strategic Bond	4.4%	-2.5%	5.3%	7.3%	-0.2%	6.1%
IA £ Corporate Bond	4.1%	-2.2%	5.1%	9.1%	-0.3%	9.8%
IA £ High Yield	6.5%	-3.2%	6.1%	10.1%	-0.7%	1.3%

Source: FE Analytics 01.05.2019; all are X Acc share classes; performance is total returns, net of fees with dividends reinvested.

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