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Close Bond Income Portfolio Fund

Monthly fund manager update

April 2019

Performance

The Close Bond Income Portfolio Fund returned +0.24% in April 2019, and 3.54% YTD. In comparison, the IA Sterling Corporate bond sector returned +0.19% in April and 4.11% YTD.

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

The average rating on the portfolio was maintained at 'A' (a significant improvement on the average portfolio rating of BBB in June 2018). The fund now offers a yield of 2.9% and duration of 5.4 years (2.3 years of which is attributed to our 7.2% holding in long duration UK Gilts). As of 30th April 2019, 47% of fund holdings are in AAA to A- rated bonds. We believe the significantly improved credit quality of the fund will offer greater 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.

Close Bond Income Portfolio Fund discrete performance as at 30 April 2019

	YTD	2018	2017	2016	2015	2014
Close Bond Income Portfolio Fund	3.5%	-2.7%	7.6%	7.2%	1.0%	7.6%
IA £ Corporate Bond	4.1%	-2.2%	5.1%	9.0%	-0.3%	9.8%
IA £ Strategic Bond	4.4%	-2.5%	5.3%	7.3%	-0.2%	6.1%
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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