

Close Bond Income Portfolio Fund

Monthly fund manager update

OCTOBER 2019

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FUND PERFORMANCE

The Close Bond Income Portfolio Fund was flat for the month of October 2019, bringing the year-to-date return to 7.72%. In comparison, the IA Sterling Corporate Bond sector returned -0.21% in October and 9.37% YTD.

The fund will always operate with lower duration than the corporate bond sector, and remains especially conservatively positioned versus the sector today (i.e. higher credit quality and lower duration) – which generally leads to the fund exhibiting relative outperformance in ‘down’ markets.

MACRO BACKDROP

On the UK macro side, politics continued to be the main driver of fixed income markets, as the Brexit deadline was extended to 31st January 2020 and an election was confirmed for 12th December 2019. Of equal importance for fixed income markets was the fact that Parliament effectively agreed to support Prime Minister Johnson’s new Brexit deal – significantly reducing the potential for a ‘no deal’ Brexit.

Regarding data, the backward-looking numbers are volatile and weak. GDP growth for August was -0.1%, albeit July’s growth was revised up to +0.4% (resulting in +0.3% growth for the 3-months to August 2019). Unemployment rose slightly to 3.9% (from 3.8%); and inflation remained stable at 1.7%. Forward-looking data points also weakened, and again remain volatile and closely linked to Brexit headlines. Indeed, composite PMI data weakened to 49.3 in September (versus a previous reading of 50.2), and all three sectors (services, manufacturing and construction) are showing signs of stress.

In the US, macro data also remained volatile – albeit generally better than the market expected. Q3 2019, annualised GDP growth was +1.9% (versus +2.0% in Q2 2019 and +3.1% in Q1 2019); inflation was stable at 1.7%; unemployment improved to 3.5% (from 3.7%); and average employee earnings growth fell slightly to +3.0%. Composite PMI survey data also improved slightly to 51.2, with manufacturing and services sectors both benefitting from

improved sentiment as the market believed a US-China trade deal was edging closer.

In the eurozone, data was generally weaker versus the previous month. GDP growth for the 12-months ending in Q3 2019 was +1.1% (versus +1.2% in Q2 2019); the inflation estimate for October decreased to 0.7%; and unemployment weakened to 7.5% (from 7.4%). Composite PMI survey data was slightly stronger however (at 51.8), with a still very weak manufacturing sector offset by a slightly stronger Services sector.

PORTFOLIO ACTIVITY

We maintained the average rating on the portfolio at ‘A’, and 51% of fund holdings are in ‘AAA’ to ‘A’- rated bonds. The fund now offers a yield of 2.6% and duration of 5.2 years (2.7 years of which is attributed to our 6.9% holding in long duration UK Gilts). We believe the very strong credit quality of the fund further de-risks it from any future volatility.

OUTLOOK AND STRATEGY

Bond markets have performed strongly over the first 8-months of the year, but the ‘Goldilocks’ environment came unstuck in September and October as the IA Sterling Strategic Bond sector posted anaemic returns (of c. 0.17%) and the IA Sterling Corporate Bond sector posted negative total returns. Indeed, sovereign bond yields remain near historic lows, while we also believe that spreads are trading slightly rich-to-fair value (sterling BBB credit spreads are now 177bps, versus their 5yr average of 184bps; 10yr average of 226bps; and 20yr average of 217bps). 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.

CLOSE BOND INCOME PORTFOLIO FUND PERFORMANCE AS AT 31 OCTOBER 2019

	YTD	2018	2017	2016	2015	2014
Close Bond Income Portfolio Fund	7.72%	-2.65%	7.55%	7.24%	1.00%	7.64%
IA £ Corporate Bond	9.37%	-2.22%	5.06%	9.08%	-0.27%	9.83%
IA £ Strategic Bond	8.45%	-2.49%	5.31%	7.33%	-0.19%	6.09%
IA £ High Yield	8.94%	-3.23%	6.05%	10.09%	-0.66%	1.25%

SOURCE :

FE Analytics 05.11.2019; YTD data as at 31.10.2019; all figures are for the X Acc share class; performance is total return, net of fees with dividends reinvested.

IMPORTANT INFORMATION

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