

# Close Bond Income Portfolio Fund

## Monthly fund manager update

NOVEMBER 2019

**ANDREW METCALF**  
Investment Director

### FUND PERFORMANCE

The Close Bond Income Portfolio Fund returned +0.35% in November 2019, and 8.10% year-to-date (YTD). In comparison, the IA Sterling Corporate Bond sector returned +0.16% in November and 9.54% YTD.

The Close Bond Income 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 should generally lead to it outperforming on a relative basis in ‘down’ markets.

### MACRO BACKDROP

On the UK macro side, politics continued to be the main driver of fixed income markets as the country approaches the general election on 12th December. UK Bond markets continued to reflect the opinion polls’ expectations of a Conservative Party majority – with Gilts underperforming (less demand for ‘risk-off’ assets), and corporate bonds outperforming (less political risk and upbeat expectations of growth under a Conservative Government).

Backward-looking data remains relatively weak. Month-on-month GDP growth for September was -0.1%, leading to Q3 2019 growth of +0.3%. Unemployment fell slightly to 3.8%; and inflation declined to +1.5% (from 1.7%). Forward-looking data points also weakened, with composite PMI data declining to 48.5 in November (from 50.0 in October), with all 3 sectors (Services, Manufacturing and Construction) 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 revised up to +2.1% (from the original estimate of +1.9%, and versus +2.0% in Q2 ‘19 and +3.1% in Q1 ‘19); inflation increased slightly to +1.8%; unemployment increased slightly to 3.6% (from 3.5%); and average employee earnings growth was stable at +3.0%. Composite PMI survey data also improved slightly to 51.9,

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 broadly stable versus the previous month. GDP growth for the 12-months ending in Q3 2019 was +1.2% (versus +1.2% in Q2 ‘19); the inflation estimate for October increased to +1.0%; and unemployment was stable at 7.5%. Composite PMI survey data was slightly weaker however (at 50.3) – with Manufacturing remaining very weak – partially offset by a slightly stronger Services sector.

### PORTFOLIO ACTIVITY

We maintained the average credit rating on the portfolio at ‘A’, and 50% of fund holdings are in ‘AAA’ to ‘A’ rated bonds. The fund now offers a yield of 2.6% and duration of 4.6 years. We believe the very strong credit quality of the fund further de-risks it from any future volatility.

### OUTLOOK AND STRATEGY

Bond markets performed strongly over the first 8-months of 2019, but the ‘Goldilocks’ environment has come unstuck over the last 3 months (September to November); with markets posting anaemic returns at best. Sovereign bond yields remain near historic lows; while we believe that spreads are trading slightly rich-to-fair value (sterling ‘BBB’ credit spreads are now 174bps, versus their 5yr average of 184bps; 10yr average of 225bps; and 20yr average of 217bps). In order to attempt 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 30 NOVEMBER 2019**

	<b>YTD</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Close Bond Income Portfolio Fund</b>	<b>8.10%</b>	<b>-2.65%</b>	<b>7.55%</b>	<b>7.24%</b>	<b>1.00%</b>	<b>7.64%</b>
IA £ Corporate Bond	9.54%	-2.22%	5.06%	9.08%	-0.27%	9.83%
IA £ Strategic Bond	8.73%	-2.49%	5.31%	7.33%	-0.19%	6.09%
IA £ High Yield	9.69%	-3.23%	6.05%	10.09%	-0.66%	1.25%

**SOURCE :**

FE Analytics 03.12.2019; YTD data as at 30.11.2019; all figures are for the X Acc share class; performance is total return, net of fees with dividends reinvested.

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**IMPORTANT INFORMATION**

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