

# Close Select Fixed Income Fund

## Monthly fund manager update

DECEMBER 2019



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Investment Director

### FUND PERFORMANCE

The Close Select Fixed Income Fund returned +0.77% in December, and 9.37% in 2019. In comparison, the IA Sterling Strategic Bond sector returned +0.49% in December, and 9.26% in 2019.

**The fund therefore outperformed the sector for the sixth consecutive year, demonstrating the effectiveness of the fund across a range of different market conditions (i.e. outperforming in 2019 – a year of bumper sector returns, as well as 2018 - where sector returns were negative).**

We are particularly proud of fund performance in 2019, given the strong risk-adjusted manner in which we generated returns. Of the c. 90 funds in the IA Sterling Strategic Bond sector, the fund was ranked #3 for Alpha generation; #3 for beta; and #12 for risk-adjusted returns (measured by Sharpe ratio).

### MACRO BACKDROP

On the UK macro side, politics continued to be the main driver of fixed income markets. Indeed, the decisive victory for the Conservative Party in the UK General Election on 12th December led to a strong rally in Sterling corporate bonds, while Gilts underperformed given less demand for 'risk-off' assets.

Regarding data, the backward-looking numbers remain weak. Month-on-month GDP growth for October was 0%, leading to 3-month / 3-month GDP growth of just 0%. Unemployment was stable at 3.8%; and inflation also remained stable at (a weak and below target) 1.5%. Forward-looking data points also remained weak, with composite PMI data for November declining to 49.3 (from 50.0 in October), with all three 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 confirmed at +2.1% (versus +2.0% in Q2 '19 and +3.1% in Q1 '19); inflation increased to 2.1% (from 1.8%); unemployment reduced slightly to 3.5% (from 3.6%); and average employee earnings growth also increased slightly to +3.1% (from +3.0%). Composite PMI survey data also improved slightly to 52.0, with manufacturing

and services sectors both benefitting from improved sentiment.

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 November was stable at 1.0%; and unemployment was stable at 7.5%. Composite PMI survey data for November was stable at 50.6 – with manufacturing remaining very weak – partially offset by a slightly stronger Services sector.

### PORTFOLIO ACTIVITY

Turning to portfolio activity, December was another very productive month.

Firstly, our UK-focused holdings outperformed strongly following the decisive Conservative Party victory. Indeed, sterling corporate bonds rallied strongly in the second half of December as 'Corbyn-risk' was extinguished.

And secondly, we reduced holdings in a number of bonds which rallied strongly in the aftermath of the result. Indeed, many of our new issue purchases from September and October 2019 rallied towards our assessment of fair value, with Nationwide, Barclays, PHP and Rothesay bonds all up +8 to +10% in just 3 months. As such, the fund now holds c.11% in cash, which we expect to deploy into new issue markets over the coming weeks.

On the portfolio construction side, duration reduced slightly to 3.5 years (0.6 years of which is a single Gilt holding), while the yield on the fund is 3.6%. We expect to boost the yield on the fund over the coming weeks (towards 4%) by using excess cash to invest in new issue markets, which are showing renewed signs of strength following the General Election.

### OUTLOOK AND STRATEGY

2019 was a very strong year for bond markets – with all major fixed income asset classes posting strong positive returns. Indeed, sovereign bond yields remain near historic lows, and we believe corporate bond spreads are trading at rich-to-fair value (sterling BBB credit spreads are now 160bps, versus their 5yr average of 183bps; 10yr average of 224bps; and 20yr average of 217bps). In order to strive for capital preservation and deliver a high level of monthly income, we

continue to seek the best risk:reward ideas across the 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 SELECT FIXED INCOME FUND PERFORMANCE AS AT 31 DECEMBER 2019

	YTD	2018	2017	2016	2015	2014
<b>Close Select Fixed Income Fund</b>	<b>9.37%</b>	<b>-1.96%</b>	<b>7.36%</b>	<b>7.97%</b>	<b>1.68%</b>	<b>9.03%</b>
IA £ Strategic Bond	9.26%	-2.49%	5.31%	7.33%	-0.19%	6.09%

#### SOURCE :

FE Analytics 06.01.2020; YTD data as at 31.12.2019; 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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