

Close Bond Income Portfolio Fund

Monthly fund manager update

DECEMBER 2019

**ANDREW METCALF**
Investment Director

FUND PERFORMANCE

The Close Bond Income Fund returned +0.29% in December, and +8.41% in 2019. In comparison, the IA Sterling Corporate Bond sector returned -0.04% in December and +9.49% in 2019.

The fund will always operate with lower duration than the corporate bond sector, against which it remains especially conservatively positioned today (i.e. higher credit quality and lower duration). This generally leads to the Close Bond Income Fund outperforming in 'down' markets.

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 GBP 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

The average rating on the portfolio was maintained at 'A', and 49% of fund holdings are in AAA to A- rated bonds. The fund now offers a yield of 2.4% and duration of 4.6 years. We believe the very strong credit quality of the fund further de-risks the fund from any future volatility.

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 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 DECEMBER 2019

	YTD	2018	2017	2016	2015	2014
Close Bond Income Portfolio Fund	8.41%	-2.65%	7.55%	7.24%	1.00%	7.64%
IA £ Corporate Bond	9.49%	-2.22%	5.06%	9.08%	-0.27%	9.83%
IA £ Strategic Bond	9.26%	-2.49%	5.31%	7.33%	-0.19%	6.09%
IA £ High Yield	10.91%	-3.23%	6.05%	10.09%	-0.66%	1.25%

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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