

# Close Select Fixed Income Fund

## Monthly fund manager update

APRIL 2020

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### FUND PERFORMANCE

The Close Select Fixed Income Fund returned +2.7% in April, taking the year-to-date performance to -6.0%. In comparison, the IA Sterling Strategic Bond sector returned +4.0% in April, and is down -2.7% year-to-date.

### MACRO BACKDROP

While financial markets posted strong positive returns in April – largely in response to the impressive and co-ordinated policy response from central banks and governments – macro data continued to deteriorate across the UK, US and Eurozone given the impact of COVID-19 and the extended ‘lockdown’ in place across all major markets.

In the UK, forward-looking data points deteriorated significantly, with the April composite Purchasing Managers’ Index (PMI) data hitting a record low of 12.9. While the backward-looking data has yet to fully reflect the ‘new normal’ of materially reduced economic activity, consensus forecasts indicate that UK GDP growth will fall -11% in Q2 2020 (and remain negative until at least Q2 2021). Inflation is expected to remain below 1.0% for the next 12 months, while unemployment is forecast (perhaps optimistically) to increase to c. 7% in Q2 2020.

In the US, macro data also weakened significantly. Composite PMI data fell to 27.4, and Q1 2020 annualised GDP growth was -4.8%. Again, consensus forecasts indicate a somewhat gloomier outlook than the picture currently reflected in the backward looking data, including a -26% fall in Q2 2020 GDP growth (followed by a strong rebound over the following 3 quarters). Inflation is also expected to remain below 1.0% over the next 12 months, with unemployment increasing to c. 13% in Q2 2020.

Eurozone data is broadly aligned with the UK and US. The April composite PMI data reached a record low of 13.5, while Q1 2020 GDP growth was -3.8%. Consensus forecasts again point to further weakening in macro data from here, including a -10% fall in Q2 2020 GDP growth (which is forecast to remain in negative territory until at least Q2 2021); inflation below 0.2% over the next 12 months; and unemployment increasing to 9% until at least Q2 2021.

### PORTFOLIO ACTIVITY

There were 2 key developments within the portfolio in April.

Firstly, we added or increased holdings in several short-duration bonds at attractive levels, including an increased position in the Sainsbury’s 2020 and 2021 bonds (unrated); a new position in BHP Billiton 2022 (BBB+); a new position in Credit Suisse 2021 (A-); an increased position in Enel 2021 (BBB-); and Glanbia 2021 (unrated) bands; and a new position in the North West Electricity Networks 2021 issue (BB+). These purchases were funded by the maturity of our Hikma 2020 bond, as well as a handful of small sales and existing cash.

Secondly, we were heavily involved in buoyant new issue markets, buying three longer-dated new issues (all from issuers we already owned within the portfolio). Indeed, we added a c. 5% portfolio position across Legal & General 2031 (A-: Yield = 4.5%); Pension Insurance Corporation 2031 (BBB+: Yield = 4.6%); and Phoenix Group 2031 (BBB: Yield = 5.6%).

On the portfolio construction side, duration was increased slightly to 2.5 years, while the yield to expected call on the fund reduced to 5.6% (yield to maturity is 8.1%, but we believe the lower figure is a more accurate measure of yield). The average rating on the rated portion of the portfolio is currently BBB+. The fund currently has c. 5% in cash with a further 11% of the fund due to mature within the next 9 weeks.

### OUTLOOK AND STRATEGY

The general market weakness in March and strong rally in April has led to a clear valuation distinction between sovereign, investment grade, and high yield bonds.

- **Sovereign bond yields** are at (or near) record lows across the US, UK and Eurozone given weakening macro data and wider concerns related to COVID-19.
- **Sterling Investment Grade** bonds are relatively cheap versus all historic timeframes, with sterling ‘BBB’ credit spreads at 250bps, versus their 5yr average of 186bps; 10yr average of 223bps; and 20yr average of 217bps.

- **Sterling High Yield** spreads appear very cheap relative to historic averages, given the current spread of 900bps (the 5yr average is 551). Although current spreads are naturally reflecting expectations of rising default rates over the next 6-12 months.

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 SELECT FIXED INCOME FUND PERFORMANCE AS AT 30 APRIL 2020

	YTD	2019	2018	2017	2016	2015
<b>Close Select Fixed Income Fund</b>	<b>-6.0%</b>	<b>9.37%</b>	<b>-1.96%</b>	<b>7.36%</b>	<b>7.97%</b>	<b>1.68%</b>
IA £ Strategic Bond	-2.7%	9.26%	-2.49%	5.31%	7.33%	-0.19%

### SOURCE:

FE Analytics 05.05.2020; YTD data as at 30.04.2020; 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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