

# Close Sustainable Bond Portfolio Fund

## Monthly fund manager update

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### FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned +1.4% in November, bringing the year-to-date (YTD) return to +4.6%. In comparison, the IA Sterling Corporate Bond sector returned +1.8% in November, and has returned +6.4% YTD.

The fund is focused on risk-adjusted returns and has historically operated with lower duration than the corporate bond sector. As a result, the fund has outperformed the sector 90% of the time in 'down' markets, and 95% of the time when the sector is down by -25bps or more (since February 2014).

As of 30<sup>th</sup> November 2020, the fund maintained an average credit rating of 'A', and an MSCI ESG rating of 'AA'.

### MACRO BACKDROP

Newsflow in November 2020 was dominated by the positive COVID-19 vaccine data releases from three clinical trials, as well as the US election outcome and increasingly positive newsflow emanating from the Brexit discussions between UK and EU. As such, both backward- and forward-looking macro data is balancing the negative short-term impact from ongoing lockdowns and social restrictions, with the 6-to-12 month positive outlooks that a vaccine rollout has created.

In the UK, forward-looking data points weakened for the third consecutive month, with October composite Purchasing Managers' Index (PMI) data falling to 47.4 (versus 52.1 in October) – largely attributable to the various November lockdown measures which hurt sentiment. The GDP bounce-back which started in May 2020 has also continued to slow, with September 2020 GDP growing just 1.1% MoM. Consensus forecasts were downgraded following the November lockdown measures – with Q4 2020 GDP growth forecast to be -2.0%, and overall 2020 GDP growth downgraded to -12% (from -10%). Inflation is expected to remain below 2% until 2023; and unemployment is expected to peak at c. 7.3% in Q3 2021.

In the US, forward-looking data was strong, with November composite PMI data of 57.9 (versus 56.3 in October), meaning the reading has improved for the sixth time in seven months. Despite ongoing public health concerns in the US

related to COVID-19, consensus forecasts continue to improve – with overall 2020 GDP growth upgraded to -3.6% (from -4.0%). Inflation is forecast to remain below 2% until 2023; and US unemployment data is expected to continue to improve from the October unemployment figure of 6.9%.

In the Eurozone, forward-looking data is weaker than the UK and US given earlier lockdowns across Eurozone countries – with November composite PMI data a weak 45.1 (versus 50.0 in October). While Q3 2020 quarter-on-quarter (QoQ) GDP growth was +12.6% (reversing the -11.8% fall in Q2 2020), consensus forecasts indicate a -1.9% QoQ fall in Q4 2020. Inflation is expected to remain below 1.2% until 2023; and unemployment is forecast to continue to rise to 9.3% in Q2 2021.

### PORTFOLIO ACTIVITY

The average credit rating on the portfolio was maintained at 'A' and 62% of fund holdings are in AAA to A- rated bonds.

The fund also maintained an ESG rating of 'AA'. The fund now offers a yield of 1.6% and duration of 6.6 years. We believe the very strong credit quality of the fund de-risks it from future volatility.

### OUTLOOK AND STRATEGY

The broad market weakness in March has been followed by a strong rally between April and November. While the rally led to a clear valuation distinction between Sovereign, Investment Grade, and High Yield bonds in the summer, all sub-asset classes now appear relatively rich:

- **Sovereign bond yields** remain at (or near) record lows across the US, UK and Eurozone given volatile macro data; Central Bank intervention; and COVID-19 concerns;
- **Sterling Investment Grade** bonds are rich versus all historical timeframes, with sterling 'BBB' credit spreads at 151bps, versus their 5yr average of 184bps; 10yr average of 225bps; and 20yr average of 217bps.
- **Sterling High Yield** spreads are slightly rich versus history given the current spread of 459bps (5yr average = 452bps; 10yr average = 516bps; 20yr average = 601bps).

In an attempt to preserve capital and deliver strong risk-adjusted returns, we continue to seek out the best risk / reward ideas across global investment grade bonds, and

maintain our focus on stock selection reinforced by in-depth credit research.

**CLOSE SUSTAINABLE BOND PORTFOLIO FUND DISCRETE PERFORMANCE AS AT 30 NOVEMBER 2020**

	YTD	2019	2018	2017	2016	2015
<b>Close Sustainable Balanced Portfolio Fund</b>	4.6%	8.4%	-2.7%	7.6%	7.2%	1.0%
IA £ Corporate Bond	6.4%	9.5%	-2.2%	5.1%	9.1%	-0.3%

**SOURCE :**

FE Analytics as at 02.12.2020, data as at 30.11.20. Performance is total return, net income reinvested after fees, X Acc share class.

**IMPORTANT INFORMATION**

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