

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

DECEMBER 2020



ANDREW METCALF
Investment Director



ERAN HASSON
Investment Manager

FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned +1.40% in December and +6.01% in 2020. In comparison, the IA Sterling Corporate Bond sector returned +1.33% in December and +7.77% in 2020.

The fund is focused on risk-adjusted returns and has historically operated with lower duration than the IA Sterling 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 31st December 2020, the fund maintained an average credit rating of A, and an MSCI ESG rating of AA.

MACRO BACKDROP

Newsflow in December was dominated by: 1) COVID-19 (the vaccine rollout is successfully underway in many countries, but public health statistics continue to deteriorate); and 2) geopolitics (the UK and EU agreed a trade deal, while President Trump continued to attack the veracity of US election result). As such, forward-looking macro data is balancing the negative short-term impact from ongoing lockdowns and social restrictions, against the 6- to 12-month positive outlook that a vaccine rollout has created.

In the UK, forward-looking data points were mixed as positive Brexit discussions; a national vaccine rollout; and pre-Brexit stockpiling countered concerns over additional lockdowns. As a result, December composite Purchasing Managers' Index (PMI) data improved to 50.7 (from 49.0 in November), though we expect this data point to remain volatile as fresh lockdown announcements and the unwinding of pre-Brexit stockpiling (i.e. fewer manufacturing orders in Q1 2021) take effect. Consensus GDP forecasts were downgraded yet again following the announcement of additional lockdown measures in December – with Q4 2020 GDP growth forecast to be -2.4%, and overall 2020 GDP growth downgraded to -12.1% (from -10% in October). Inflation is expected to remain below 2% until 2023; and unemployment is expected to peak at c. 7% in Q2 2021.

In the US, forward-looking data remained strong, with a December composite PMI reading of 55.7 (albeit weaker than the November return of 58.6). Despite ongoing public health concerns in the US related to COVID-19, consensus GDP forecasts continue to improve – with overall 2020 GDP growth upgraded again to -3.5% (from -4.0% in October and -3.6% in November). The positive growth forecasts have translated into expectations of inflation rising to 2.0% at the end of 2021 - while unemployment is expected to continue to improve from the November figure of 6.7%.

In the Eurozone, December composite PMI data improved to 49.8 (versus 45.3 in November), but consensus forecasts for Q4 2020 GDP growth was simultaneously downgraded to -2.2% (from -1.9% in November) as additional lockdown measures were implemented across much of the Eurozone. Inflation is expected to remain below 1.2% until 2023; and unemployment is expected to peak at c. 9% in Q2 2021.

PORTFOLIO ACTIVITY

The average credit rating on the portfolio was maintained at 'A', with 61% of fund's holdings in AAA to A- rated bonds.

The fund also maintained an ESG rating of 'AA'. The fund now offers a yield of 1.4% and duration of 6.7 years. We believe the very strong credit quality de-risks the fund from any future volatility.

OUTLOOK AND STRATEGY

All fixed income 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 144bps, versus their 5yr average of 186bps; 10yr average of 219bps; and 20yr average of 217bps.

- **Sterling High Yield** spreads are slightly rich versus history given their current spread of 463bps (5yr average = 498bps; 10yr average = 519bps; 20yr average = 599bps).

In an effort 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 31 DECEMBER 2020

| | YTD | 2019 | 2018 | 2017 | 2016 | 2015 |
|-----------------------------|------|------|-------|------|------|-------|
| Close Sustainable Bond Fund | 6.0% | 8.4% | -2.7% | 7.6% | 7.2% | 1.0% |
| IA £ Corporate Bond | 7.8% | 9.5% | -2.2% | 5.1% | 9.1% | -0.3% |

SOURCE:

FE Analytics as at 04.01.2021, data as at 31.12.2020. Performance is total return, net income reinvested after fees, X Acc share class.

IMPORTANT INFORMATION

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