

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

JANUARY 2021



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FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned -0.9% in January, while the IA Sterling Corporate Bond sector returned -0.8% over the same period.

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 87% of the time in 'Down' markets, and 90% of the time when the sector is down by -25bps or more (since February 2014).

As of 31st January 2021, the Fund maintained an average credit rating of A-, and an MSCI ESG rating of AA.

MACRO BACKDROP

Newsflow in January 2021 was dominated by the ongoing COVID-19 vaccine rollout, and how quickly major economies might begin to re-open. 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 the vaccine rollout has created. Despite near-term volatility, 2021 GDP growth forecasts in the UK, US and Eurozone are +4.7%, +4.1%, and +4.3%, respectively.

In the UK, January composite PMI data fell to 40.6 (from 50.4 in December), as 'lockdown' announcements indicate major restrictions could remain throughout Q1 2021. Consensus forecasts were upgraded however, with Q4 2020 GDP growth forecast now at -1.4%, and overall 2020 GDP growth upgraded to (a still weak) -10.6% (from -12% in December). 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 January composite PMI data of 58.0 (the 2nd highest reading in the last 12 months after a strong November print of 58.6). Despite ongoing public health concerns in the US related to COVID-19, consensus forecasts continue to improve, with overall 2020 GDP growth confirmed at -3.5%. The positive growth forecasts have translated into expectations of rising

inflation, with inflation expected to reach 2.7% in Q2 2021, and unemployment to continue to improve from the December figure of 6.7%.

In the Eurozone, January composite PMI data weakened to 47.5 (versus 49.1 in December), while consensus GDP growth forecasts for Q4 2020 were simultaneously downgraded to -2.4% 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 of the portfolio remained strong at 'A-' and 59% of its holdings are in AAA to A- rated bonds.

The Fund also maintained an ESG rating of 'AA' and now offers a yield of 1.6% with a duration of 7 years exactly. We believe this very strong credit quality helps de-risk the Fund from potential future volatility.

OUTLOOK AND STRATEGY

All fixed income sub-asset classes now appear 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 185bps; 10yr average of 218bps; and 20yr average of 217bps;
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 306bps versus their 5yr average of 337bps, 10yr average of 386bps and 20yr average of 439bps).

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 JANUARY 2021**

	YTD	2020	2019	2018	2017	2016
Close Sustainable Bond Portfolio Fund	-0.9%	6.0%	8.4%	-2.7%	7.6%	7.2%
IA Sterling Corporate Bond	-0.8%	7.8%	9.5%	-2.2%	5.1%	9.1%

SOURCE:

FE Analytics as at 03.02.2021, data as at 31.01.21. Performance is total return, net income reinvested after fees, X Acc share class.

IMPORTANT INFORMATION

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