

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

FEBRUARY 2021



ERAN HASSON
Investment Director

FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned -2.0% in February, and -2.9% YTD. In comparison, the IA Sterling Corporate Bond sector returned -2.6% in February and -3.3% YTD.

The Close Sustainable Bond Portfolio 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 this 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 28th February 2021, the Fund maintained an average credit rating of A-, and an MSCI ESG rating of AA.

MACRO BACKDROP

Newsflow in February 2021 continued to be dominated by the ongoing COVID-19 vaccine rollout, and how quickly major economies can 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 +4.6%, +4.9%, and +4.2%, respectively.

In the UK, February composite PMI data improved to 49.8 (from 41.2 in January), as the vaccine rollout continued apace and the UK government announced a timetable to end major restrictions. Q4 2020 GDP growth was confirmed at +1.0%, and overall 2020 GDP growth registered a better-than-expected -7.8%. Inflation is expected to remain below 2% until 2023; and unemployment is expected to peak at c. 6.5% in Q2 2021.

In the US, forward-looking data remained strong, with a February composite PMI print of 58.8 (the highest reading in 12-months). Despite ongoing public health concerns in the US related to COVID-19, consensus forecasts continue to improve, translating into expectations of rising inflation – with inflation expected to reach 2.9% in Q2 2021, and unemployment to continue to improve from the January figure of 6.3%.

In the Eurozone, February composite PMI data improved slightly to 48.1 (versus 47.8 in January), while Q4 2020 Quarter-on-Quarter GDP growth was confirmed at a better-than-expected -0.6%. Inflation is expected to remain below 1.3% 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 58% 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 1.8% with a duration of 6.1 years. 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 near record lows across the US, UK and Eurozone despite volatility in February 2021, following the mini-crisis in 2020.
- **Sterling Investment Grade** bonds are rich versus all historical timeframes, with sterling 'BBB' credit spreads at 135bps, versus their 5yr average of 183bps; 10yr average of 217bps; and 20yr average of 217bps.
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 271bps versus their 5yr average of 334bps; 10yr average of 385bps 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.

OTHER FUND DEVELOPMENTS

After four and a half years at Close Brothers, Andrew Metcalf is moving to a new role at another organisation. From 1st March 2021, Andrew will no longer be a co-manager of the Close Sustainable Bond Portfolio Fund. Eran Hasson, will be sole manager of the fund.

**CLOSE SUSTAINABLE BOND PORTFOLIO FUND DISCRETE PERFORMANCE
AS AT 28 FEBRUARY 2021**

	YTD	2020	2019	2018	2017	2016
Close Sustainable Bond Portfolio Fund	-2.9%	6.0%	8.4%	-2.7%	7.6%	7.2%
IA Sterling Corporate Bond	-3.3%	7.8%	9.5%	-2.2%	5.1%	9.1%

SOURCE:

FE Analytics as at 03.03.2021, data as at 28.02.21. Performance is total return, net income reinvested after fees, X Acc share class.

IMPORTANT INFORMATION

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