

Close Select Fixed Income Fund

Monthly fund manager update

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FUND PERFORMANCE

The Close Select Fixed Income Fund returned +0.4% in February, and +0.9% YTD – excluding the temporary ‘swing price’ which occurred on the final day of the month (see below). In comparison, the IA Sterling Strategic Bond sector returned -1% in February, and -1.1% YTD.

Swing prices occur when there is an inflow or outflow greater than 1% of the Fund’s total value. As such, fund performance was artificially impacted by -0.75% in February, though this reversed on the 1st of March (i.e. performance was artificially boosted by +0.75% the following day netting off any impact to existing holders).

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

Portfolio activity in February was relatively muted given the significant de-risking exercise we undertook in January. Indeed, January saw the team increase overall credit quality; reduce exposure to higher beta bonds; significantly reduce duration; and raise cash to record high levels. As a result of this cautious approach, we generated positive returns in January and February, and believe we still offer a better yield than the IA sector.

Key trades included adding to the inaugural Asda 2025 bond at a yield of 3.0%, as well as adding small portfolio positions in ‘special situation’ UBS and Credit Suisse bonds.

On the portfolio construction side, cash levels are at 13%; duration is 3.0 years; and yield to expected call is 2.4% (the Yield to Maturity is 3.2%, but we believe the lower figure is a more accurate measure of yield). The average credit rating on the rated portion of the portfolio is BBB+, and the unrated portion of the Fund accounts for 11%.

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 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.

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 Select Fixed Income Fund. He is replaced by Eran Hasson, who will co-manage the fund alongside existing co-manager, Stephen Hayde.

CLOSE SELECT FIXED INCOME FUND PERFORMANCE AS AT 28 FEBRUARY 2021

	YTD	2020	2019	2018	2017	2016
Close Select Fixed Income Fund	0.9%	4.2%	9.4%	-2.0%	7.4%	8.0%
IA £ Strategic Bond	-1.1%	6.6%	9.3%	-2.5%	5.3%	7.3%

SOURCE:

FE Analytics 03.03.2021; YTD data as at 28.02.2021; 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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