

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

MARCH 2021



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FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned +0.2% in March, and -2.7% YTD. In comparison, the IA Sterling Corporate Bond sector returned +0.1% in March and -3.3% YTD.

The Fund is focused on risk-adjusted returns and has historically operated with lower duration than the corporate bond sector. As a result, it 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 March 2021, the Fund maintained an average credit rating of A-, and an MSCI ESG rating of AA.

MACRO BACKDROP

Once again, newsflow in March 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 +4.7%, +5.7%, and +4.2%, respectively; the US seeing a significant upward revision since February

In the UK, March composite PMI data materially improved to 56.6 (from 49.6 in February), predominantly due to a strong rebound in services PMI (the March reading was 56.8 and February was 49.5). The Q1 2021 GDP consensus forecast was further downgraded to -3.5% while the Q2 2021 GDP forecast was maintained at +4.8%, reflecting a strong expected pick-up in activity as the UK economy progressively re-opens in Q2 2021. Inflation is expected to remain below 2% until 2023; and unemployment is expected to peak at c. 6.1% in Q4 2021.

In the US, forward-looking data remained strong, with March composite PMI data at 59.1 (from 59.5 in February). The 2021 GDP consensus forecast was upgraded from 4.9% to 5.7% as a result of the USD1.9tn stimulus package passed by the US Congress in March. Inflation is expected to reach

2.9% in Q2 2021, and unemployment to continue to improve from the February figure of 6.2%.

In the Eurozone, March composite PMI data also improved to 52.5 (from 48.8 in February), materially exceeding expectations. Manufacturing PMI reached an all-time high of 62.4 as a result of a strong recovery in global trade. Services PMI also increased to 48.8, but remained in contractionary territory as new waves of lockdowns impacted sentiment. The Q2 2021 GDP consensus forecast was downgraded from 2.1% to 2.0% while the Q3 2021 forecast was maintained at 2.0%. Inflation is expected to remain below 1.6% until 2023; and unemployment is expected to peak at c. 8.6% in Q4 2021

PORTFOLIO ACTIVITY

The average credit rating on the portfolio remained strong at 'A-' with 58% of its holdings AAA to A- rated bonds.

The Fund also maintained an ESG rating of 'AA' and offers a yield of 1.9% with a duration of 6.1 years. We believe the 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 gradually rising since the mini-crisis in 2020.
- **Sterling Investment Grade** bonds are rich versus all historical timeframes, with sterling 'BBB' credit spreads at 138bps, versus their 5yr average of 181bps; 10yr average of 216bps; and 20yr average of 217bps.
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 269bps versus their 5yr average of 331bps; 10yr average of 384bps and 20yr average of 438bps).

Aiming 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.

**CLOSE SUSTAINABLE BOND PORTFOLIO FUND DISCRETE PERFORMANCE
AS AT 31 MARCH 2021**

	YTD	2020	2019	2018	2017	2016
Close Sustainable Bond Portfolio Fund	-2.7%	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 06.04.2021, data as at 31.03.21. Performance is total return, net income reinvested after fees, X Acc share class.

IMPORTANT INFORMATION

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