

# Close Sustainable Bond Portfolio Fund

## Monthly fund manager update

APRIL 2021

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### FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned +0.7% in April, bringing the year-to-date (YTD) return to -2.0%. This compares favourably to the IA Sterling Corporate Bond sector, which returned +0.7% in April and has declined -2.6% YTD.

The Fund is focused on risk-adjusted returns and has historically operated with a lower duration than the corporate bond sector. As a result, the Sustainable Bond 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 30 April 2021, the Sustainable Bond fund maintained an average credit rating of A-, and an MSCI ESG rating of AA.

### MACRO BACKDROP

Newsflow in April was again 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 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 +5.5%, +6.3%, and +4.1%, respectively.

In the UK, April composite Purchasing Managers' Index (PMI) data continued to improve, rising to 60 after a strong rebound to 56.4 in March (February was 49.6). The improvement was principally driven by strong Services PMI (April was 60.1 and March was 56.3), which reflected greater optimism and higher activity as social restrictions were eased on 12 April. The consensus GDP forecast for 2021 was further upgraded from 4.7% to 5.5%, reflecting a stronger Q1 than initially anticipated, and the expected pick-up in activity as the UK economy progressively re-opens over the coming months. Inflation is forecasted to remain below 2% until 2023; and unemployment is expected to peak at c. 6% in Q4 2021.

In the US, forward-looking data remained strong, with April composite PMI data at a reading of 62.2 (from 59.7 in March). Consensus GDP forecast for 2021 was also further upgraded (from 5.7% to 6.3%) as a result of the faster than expected

vaccine rollout, as well as the USD1.9trn stimulus package passed by US Congress in March. Inflation is expected to reach 3.2% in Q2 2021 before gradually falling to 2.6% by Q4 2021. Unemployment is forecast to fall from the March figure of 6% to 4.8% by Q4 2021.

In the Eurozone, April composite PMI data slightly improved to 53.7 (from 53.2 in March). Manufacturing PMI reached an all-time high of 63.3 as a result of a strong recovery in global trade. Services PMI also increased, rising to 50.3, meaning it is in 'expansionary' territory (above 50) for the first time since August 2020. Consensus GDP forecast for Q2 2021 was downgraded from 2% to 1.8%, leading to the full year 2021 consensus forecast being downgraded from 4.2% to 4.1%. Inflation is expected to peak at 2.2% in Q4 2021, before falling back below the European Central Bank's (ECB) 2% target. Unemployment is expected to peak at c. 8.4% in Q3 2021.

### PORTFOLIO CHARACTERISTICS

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

The fund also maintained an ESG rating of 'AA'. The fund now offers a yield of 1.8% and duration of 6.1 years. We believe the very strong credit quality of the fund helps de-risk it 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 131bps, versus their 5yr average of 180bps; 10yr average of 216bps; and 20yr average of 217bps.
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 261bps (versus the 5yr average of 330bps; the 10yr average of 384bps and the 20yr average of 438bps).

In an effort to preserve capital and deliver a good 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 30 APRIL 2021**

	<b>YTD</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Close Sustainable Bond Portfolio Fund</b>	<b>-2,0%</b>	<b>6.0%</b>	<b>8.4%</b>	<b>-2.7%</b>	<b>7.6%</b>	<b>7.2%</b>
IA Sterling Corporate Bond	-2.6%	7.8%	9.5%	-2.2%	5.1%	9.1%

**SOURCE:**

FE Analytics as at 05.05.2021, data as at 30.04.21. Performance is total return, net income reinvested after fees, X Acc share class.

**IMPORTANT INFORMATION**

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