

Close Select Fixed Income Fund

Monthly fund manager update

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FUND PERFORMANCE

April was another positive month for the Close Select Fixed Income Fund and continued the strong start to the year, which has seen the Fund strongly outperform the IA sector over the first quarter of 2021. The Fund returned +0.8% in April, bringing the year-to-date (YTD) return to +2.0%. In comparison, the IA Sterling Strategic Bond sector returned +0.8% in April, and -0.4% YTD.

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 forecasted 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 ACTIVITY

Portfolio activity was relatively muted in April. Valuations remain relatively unattractive, meaning we continue to adopt a cautious approach to investing. We predominantly added to existing positions in core names with attractive risk / reward characteristics.

Firstly, we added to our existing holding of the IPF 2025 bond at a yield of 7.9%. Secondly, we decided to increase our position in the Lancashire 2041 bond (callable in 2031) at a yield of 4.9% following solid Q1 2021 results.

On the portfolio construction side, cash levels are at c.9%; duration is 3.2 years; and yield to expected call is 2.4% (Yield to Maturity is 3.3%, 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+, while the unrated portion of the fund currently amounts to 11%.

OUTLOOK AND STRATEGY

All fixed income sub-asset classes now appear richly valued:

- **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 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 SELECT FIXED INCOME FUND PERFORMANCE AS AT 30 APRIL 2021

	YTD	2020	2019	2018	2017	2016
Close Select Fixed Income Fund	2.0%	4.2%	9.4%	-2.0%	7.4%	8.0%
IA £ Strategic Bond	-0.4%	6.6%	9.3%	-2.5%	5.3%	7.3%

SOURCE:

FE Analytics 05.05.2021; YTD data as at 30.04.2021; 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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