Close Sustainable Bond Portfolio Fund

Monthly fund manager update

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FUND PERFORMANCE

The Close Sustainable Bond Portfolio Fund returned +1.0% in June, taking it to -0.94% on a year-to-date basis (YTD). In comparison, the IA Sterling Corporate Bond sector returned +1.0% in June and -1.55% YTD.

The Fund is focused on risk-adjusted returns and has historically operated with lower duration than the IA 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 30 June 2021, the Fund maintained an average credit rating of A-.

MACRO BACKDROP

Newsflow in June 2021 continued to be dominated by the ongoing COVID-19 vaccine rollout, and how quickly major economies can re-open. As such, forward-looking macro data are balancing the negative short-term impact from ongoing restrictions, against the positive outlook that the vaccine rollout has created. Despite near-term volatility, 2021 GDP growth forecasts in the UK, US and Eurozone are +6.7%, +6.6% and +4.4% respectively.

In the UK, June composite PMI data remained very strong at 61.7 (62.9 in May), with both Manufacturing (64.2) and Service (61.7) sectors (pointing to a rapid recovery in the second quarter or 2021. The GDP consensus forecast for 2021 was further upgraded from 6.1% to 6.7%, reflecting a stronger-than-expected pickup in activity as the economy re-opens. In the fourth quarter, inflation is forecast to temporarily exceed the Bank of England's 2% target, and unemployment is now expected to peak at 5.3%.

In the US, forward-looking data remained strong, with the June composite PMI at 63.9 (versus 68.7 in May). The GDP consensus forecast for 2021 was further upgraded from 6.5% to 6.6% as a result of the fast vaccine rollout and bright macro outlook. Inflation is now expected to reach 4.3% in Q2 before progressively falling to 3.8% by Q4. Unemployment is forecast to fall from the May figure of 5.8% to 4.8% by Q4 2021.

In the Eurozone, June composite PMI data continued to improve to 59.2 (versus 57.1 in May) as the Covid-19 vaccine rollout rapidly gathered pace across member countries. Manufacturing PMI remained stable at 63.1 while Services PMI rose to 58 from 55.2 in May, as restrictions continued to be eased in several Eurozone countries. The GDP consensus forecast for 2021 was upgraded to 4.4% from 4.1%. Inflation is expected to peak at 2.5% in Q4, before falling back below the European Central Bank's 2% target. Unemployment is expected to peak at 8.3% in Q2.

PORTFOLIO CHARACTERISTICS

The average credit rating on the portfolio remained strong at 'A-' and 53% of Fund holdings are in AAA to A- rated bonds.

The Fund offers a yield of 1.8%, with a duration of 6.3 years. We believe the strong credit quality further de-risks the Fund from potential future volatility.

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 crisis in 2020.
- **Sterling Investment Grade** bonds are rich versus all historical timeframes, with sterling 'BBB' credit spreads at 128bps, versus their 5yr average of 177bps; 10yr average of 214bps; and 20yr average of 216bps.
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 250bps (versus the 5yr average of 326bps; 10yr average of 380bps; and 20yr average of 438bps).

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 the investment grade, unrated and high yield bond sectors. We maintain our focus on stock selection reinforced by in-depth credit research.