

Close Select Fixed Income Fund

Monthly fund manager update

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FUND PERFORMANCE

The Close Select Fixed Income Fund returned +0.8% in June taking it to +3.1% on a year-to-date (YTD) basis. In comparison, the IA Sterling Strategic Bond sector returned +0.8% in June, and +0.6% YTD.

June was another positive month for the Fund, and follows its strong outperformance in the first five months of 2021 when it returned +2.3%, while the IA Sterling Strategic bond sector returned -0.3%.

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 of 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 Q4 2021.

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 2021, before falling back below the European Central Bank's 2% target.

Unemployment is expected to peak at 8.3% in Q2 2021

PORTRAIT ACTIVITY

While most fixed income sub-asset classes appear richly valued, we continued to selectively deploy cash in bonds with attractive risk/reward characteristics.

For example, we initiated a starting position in Together Financial bonds at a yield of 4.4% – after conducting deep fundamental research on the company.

In general, we remain convinced that our strategy, focussed on taking relatively concentrated positions in core bonds at attractive valuations, is appropriate in the current market environment.

On the portfolio construction side, cash levels are at 12%; duration is 3.3 years; and yield to expected call is 2.5% (the yield-to-maturity is currently 3.1%, but we believe the lower figure is a more accurate measure of yield). The average rating on the rated portion of the portfolio is BBB+, with 7% of the Fund unrated.

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.

IMPORTANT INFORMATION

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