

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

SEPTEMBER 2021

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FUND PERFORMANCE

The Close Sustainable Bond Fund returned -1.37% in September, or 0.38% in excess of the IA Sterling Corporate Bond Sector, which returned -1.75%.

The Sustainable Bond fund is focused on risk-adjusted returns and has historically operated with a duration of 6.2 years, lower than that of the corporate bond sector.

As of 30th September 2021, the Fund maintained an average credit rating of 'A-'.

MACRO BACKDROP

News in September was dominated by tapering messages. The BoE announced the end of reinvestments once their Policy Rate reaches 0.5%. The ECB guided that PEPP (Pandemic Emergency Purchase Programme) purchases would "recalibrate" during Q4, and the Fed inched closer to announcing tapering in November 2021. Macro risks remain to the downside going forward.

In the UK, September composite PMI data continued to signal strong expansion at 54.1, but declined for the fourth consecutive month, indicating a loss of GDP momentum. Inflation is forecast to reach 3.4% in Q1 2022; and unemployment is now expected to peak at 5.3% in Q4 2021.

In the US, the Fed is increasingly confident of macro data. Tapering could be announced in November and formally start in December. Assuming purchases will cease by July 2022 implies a tapering pace of \$15bn/month. Both the services and manufacturing PMI readings missed estimates and fell to 54.4 and 60.5 respectively. Supply chain issues and capacity shortages remain the key factors behind the slump. US jobless claims grew, but in our eyes the move does not warrant a derailing of either the labour-market's recovery or the Fed's plans.

In the Eurozone, September composite data fell to 56.1 (August 59.0), with both manufacturing and services coming in around two points below expectations. GDP consensus for FY21 was upgraded to 5.0% from 4.7% and inflation is expected to peak this year at 2.2% before falling below the 2% target again in 2022 at 1.6%. Unemployment is expected to continue hovering around 7.8% from now until H1 '22.

PORTFOLIO CHARACTERISTICS

The average credit rating on the portfolio remains strong at 'A-', with 49% of the Fund's holdings in 'AAA' to 'A-' rated bonds. We believe the Fund's very strong credit quality further de-risks it from any future volatility.

The Fund now yields 1.85% and has a duration of 6.2 years.

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.
- **Sterling Investment Grade** bonds are rich versus all historical timeframes, with sterling 'BBB' credit spreads at 126bps, versus their 5yr average of 176bps; 10yr average of 214bps; and 20yr average of 216bps.
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 250bps (5yr average of 324bps; 10yr average of 380bps; 20yr average of 434bps).

In an effort to attempt 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.

IMPORTANT INFORMATION

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