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# Close Select Fixed Income Fund

## Monthly fund manager update

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### FUND PERFORMANCE

The Select Fixed Income Fund returned +0.1% in September taking the year-to-date figure to +4.3%. In comparison, the IA Sterling Strategic Bond sector returned -0.5% in September, and +1% YTD.

### 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 closed 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 de-railing 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 2 points below expectations. GDP consensus for FY21 was upgraded to 5.0% from 4.7% and inflation this year is expected to peak at 2.2% before falling below the ECB's 2% target again in 2022 at 1.6%. Unemployment is expected to continue hovering around 7.8% from now until H1 '22.

### PORTFOLIO ACTIVITY

With the end of the summer holidays came a much busier primary issuance market. Trafigura decided to tender early for its perpetual bond (callable 2022) at a yield of just 2.05% and to refinance it with a new perpetual bond (callable 2027) at a much higher yield of 5.875%. This was a very popular new issue but we were able to get a top allocation as existing bondholders. This means we were able to maintain the same level of credit risk but increase our yield nearly three-fold for taking on a 5-year longer expected maturity date. We also initiated starting positions in Utmost Group and EDP, whilst our Enel SpA bond was called and repaid, as expected.

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

On the portfolio construction side, cash levels remain high at 12% given valuations are lofty at the moment; duration is 3.4 years; and yield-to-expected call is 2.3% (its yield-to-maturity is 3%, 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+. 6% of the Fund is formally unrated.

### 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 = 324bps; 10yr average = 380bps; 20yr average = 434bps).

In order 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.