Close Brothers Asset Management

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# Close Sustainable Bond Portfolio Fund

## Monthly fund manager update

MARCH 2022

### FUND PERFORMANCE

The Close Sustainable Bond Fund returned -0.7% in March, and -5.9% year-to-date (YTD). In comparison, the Investment Association Sterling Corporate Bond sector returned -0.8% in March, and -5.6% YTD.

The Sustainable Bond fund is focused on risk-adjusted returns and has historically operated with lower duration than the corporate bond sector. As a result, the Sustainable Bond fund has outperformed the sector c. 86% of the time in 'Down' markets, and c. 88% of the time when the sector is down by -25bps or more (since February 2014).

### MACRO BACKDROP

Newsflow in March was dominated by the Russia-Ukraine crisis and Central Bank action. The Federal Reserve raised US interest rates (to 0.25% – 0.50%) for the first time since December 2018, and complemented the rate hike with hawkish language. The Bank of England raised rates (to 0.75%) for the third time since December 2021. And the European Central Bank (ECB) kept policy rates stable (at -0.50%), although their rhetoric was more hawkish than expected.

In the UK, March Composite Purchasing Managers Index (PMI) data remained strong at 59.7 (Feb-22 was 59.9). Despite the strong PMI data, consensus 2022 GDP growth forecasts were again downgraded, dropping to +4.0% from +4.3% in Feb-22, and +4.5% in Jan-22. Inflation forecasts remain stubbornly elevated, indeed, end of year 2022 Consumer Price Index (CPI) inflation is now forecast to reach +6.2%. In September 2021, just 6 months ago, the 2022 inflation forecast was just +2.6%.

In the US, March Composite PMI data rebounded to 58.5 (Feb-22 was 55.9), albeit 2022 consensus GDP growth forecasts declined to +3.5% (from +3.7% in Feb-22). US inflation forecasts for the end of 2022 rose to 4.5% - a significant increase on the +3.3% forecast in Feb-22.

In the Eurozone, March Composite PMI data weakened slightly to 54.5 (Feb-22 was 55.5), while consensus 2022 GDP growth forecasts also declined, falling to +3.2% from +4.0% in February. End of year 2022 inflation expectations increased significantly to 5.1% (Feb-22 was +2.6%) given concerns over Russian gas supplies.

### PORTFOLIO CHARACTERISTICS

The average credit rating on the portfolio remained strong at 'A-' and 45% of fund holdings are in AAA to A- rated bonds. The fund offers a yield of 3.5% and duration of 5.4 years. We believe the very strong credit quality of the fund helps de-risks it from potential future volatility.

### OUTLOOK AND STRATEGY

All Fixed Income sub-asset classes appear slightly rich:

- **Sovereign bond yields** have been volatile over the last 4 weeks, and remain rich across the UK, US and Eurozone.
- **Sterling Investment Grade** bonds are slightly rich versus all historical timeframes, with sterling 'BBB' credit spreads at 180bps, versus their 5yr average of 170bps; 10yr average of 197bps; and 20yr average of 215bps.
- **Sterling High Yield** spreads are slightly rich versus history, with 'BB' spreads at 339bps (versus 5yr average of 317bps; 10yr average of 353bps; 20yr average of 432bps).

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 sustainable investment grade sectors. We maintain our focus on stock selection reinforced by in-depth credit research.