

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

APRIL 2022

FUND PERFORMANCE

The Close Sustainable Bond Fund returned -2.7% in April, bringing the year-to-date (YTD) return to -8.4%. In comparison, the Investment Association (IA) Sterling Corporate Bond sector returned -2.5% in April, and has fallen -7.9% 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 fund has outperformed the sector c. 84% of the time in 'down' markets, and c. 85% of the time when the sector is down by -25bps or more (since February 2014).

MACRO BACKDROP

Newsflow in April was again dominated by the Russia-Ukraine crisis, in addition to headlines about global inflation and Central Bank rhetoric (especially in the US). Indeed, the US Federal Reserve (Fed) signalled that Quantitative Tightening will likely start in summer 2022, at a pace of c. USD 95bn per month (unwinding the c. USD 9trn of debt on the Fed's balance sheet).

In the UK, April Composite Purchasing Managers' Index (PMI) data weakened slightly versus March, but still remained at a relatively strong 57.6 (March was 60.9). The slightly weaker PMI data also translated into another downgrade to the consensus 2022 GDP growth forecast to +3.8% (from +4.0% in March, and +4.5% in January). Inflation forecasts remain stubbornly elevated, with end of year 2022 Consumer Prices Index (CPI) inflation now forecast to reach +7.1% (after peaking at c. 8.1% in Q2 2022). In September 2021 – just 7 months ago - the 2022 inflation forecast was as low as +2.6%.

In the US, April Composite PMI data weakened to 55.1 (March was 57.7), while 2022 consensus GDP growth forecasts declined to +3.2% (March was +3.5%). The growth downgrade was caused by a shock data point which highlighted that US GDP contracted at an annualised rate of -1.4% quarter-on-quarter in Q1 2022 – albeit this decline was largely driven by inventory un-winding and reduced public sector spending, rather than material changes to household consumption (which remained strong). US inflation forecasts for the end of 2022 rose to 5.7% - a significant increase on the +4.5% forecast in March.

In the Eurozone, April Composite PMI data actually strengthened to 55.8 (March = 54.9), while consensus 2022 GDP growth forecasts declined to +2.8% (March = +3.2%). End of year 2022 inflation expectations increased significantly to 5.9% (February = +2.6% / March = 5.1%) given ongoing concerns over Russian gas supplies.

PORTFOLIO CHARACTERISTICS

The average credit rating on the portfolio remained strong at 'A-', with 45% of fund holdings in AAA to A- rated bonds. The fund offers a yield of 4.0% and duration of 5.2 years. We believe the very strong credit quality of the fund helps de-risk it from future potential volatility.

OUTLOOK AND STRATEGY

All Fixed Income sub-asset classes appear slightly rich:

- **Sovereign bond yields** have been volatile over the last four weeks, and remain rich across the UK, US and Eurozone.

- **Sterling Investment Grade** bonds are slightly rich versus historical timeframes, with sterling 'BBB' credit spreads at 194bps, versus their 5yr average of 170bps; 10yr average of 195bps; and 20yr average of 215bps.

- **Sterling High Yield** spreads are fair value versus history, with 'BB' spreads at 389bps versus their 5yr average of 318bps; 10yr average of 350bps; and 20yr average = 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.

IMPORTANT INFORMATION

This document is only intended for use by UK investment professionals and should not be distributed to or relied upon by retail clients. The value of investments will go up and down and clients may get back less money than they invested. Past performance is not a reliable indicator of future returns. The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of Close Brothers Group plc, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86.

CBAM6122