

Close Sustainable Bond Portfolio Fund

Monthly fund manager update

OCTOBER 2022

FUND PERFORMANCE

The Close Sustainable Bond Fund returned +2.6% in October, bringing the year-to-date return to -17.5%. In comparison, the Investment Association (IA) Sterling Corporate Bond Sector returned +3.4% in October, and has fallen -17.9% YTD.

MACRO BACKDROP

Newsflow in October was dominated by expectations of continued Central Bank interest rate hiking, and political volatility in the UK. The latter led to Rishi Sunak becoming Prime Minister and the UK government reversing the vast majority of tax cuts announced in September.

The Bank of England (BoE) did not meet in October, but are expected to raise the policy rate to 3.00% (from 2.25%) on 3rd November.

The Federal Reserve (Fed) did not meet in October, but are expected to raise the policy rate to 4.00% (from 3.25%) on 2nd November.

The European Central Bank (ECB) raised the Depo Rate to 1.50% (from 0.75%); and the Refi Rate to 2.00% (from 1.25%). The ECB – in-line with the BoE and Federal Reserve - also signalled further rate hikes to come in December.

In the UK, Composite Purchasing Managers Index (PMI) data declined to 47.2 (September = 49.1). Consensus 2022 GDP growth forecasts actually increased to +4.2% (September = +3.5%), albeit consensus 2023 GDP growth forecast is -0.4%. Inflation forecasts reduced following the announcement of the energy price cap, but remain elevated with end of year 2022 Consumer Prices Index (CPI) inflation forecast to reach c. 10% (likely peaking in October). Unemployment data improved to an exceptionally strong 3.5%.

In the US, Composite PMI data declined to 47.2 (September was 49.5). Consensus 2022 GDP growth forecasts increased to +1.7% (September was +1.6%), albeit consensus 2023 GDP growth forecast is +0.4%. US inflation forecasts for the end of 2022 increased slightly to +7.3% (September was +7.1%), while unemployment remained strong at 3.5%.

In the Eurozone, Composite PMI data weakened to 47.1 (September was 48.1), while consensus 2022 GDP growth forecasts increased for the third consecutive month to +3.0% (September was +2.9%), albeit consensus 2023 GDP growth

forecast is -0.1% End of year 2022 inflation expectations increased to 9.6% (September was 9.5% and March was 5.1%) given ongoing concerns over Russian gas supplies. Unemployment remained stable at 6.6%.

PORTFOLIO CHARACTERISTICS

The average credit rating on the portfolio remained strong at 'BBB+', with 27% of fund holdings in AAA to A- rated bonds. The fund offers a yield of 8.0% and duration of 4.8 years. We believe the very strong credit quality of the fund helps de-risk the fund from future volatility.

OUTLOOK AND STRATEGY

Fixed Income sub-asset classes:

- **Sovereign bond yields** are volatile and reactive to macro data – and offer fair value in the UK, US and Eurozone.
- **Sterling Investment Grade** bonds are cheap versus all historical timeframes, with sterling 'BBB' credit spreads at 274bps, versus their 5yr average of 178bps; 10yr average of 189bps; and 20yr average of 215bps.
- **Sterling High Yield** spreads are cheap versus history, with 'BB' spreads at 571bps versus their 5yr average of 341bps; 10yr average of 344bps; 20yr average of 429bps).

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

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