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Amity Short-Dated Bond Fund – Q4 2019 Commentary

Quarter end December 2019

Performance

	3 months	6 Months	1 year
Fund Performance (B class)	0.10%	1.00%	2.89%
iBoxx Non-Gilts ex BBB 1-5 TR GBP	-0.15%	0.77%	2.65%
IA £ Corporate Bond	-0.06%	3.00%	9.52%
Sector Quartile	2	4	4

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested

Yields

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Distribution	1.70%	1.70%	1.75%	1.81%	1.81%	1.81%
Underlying	1.70%	1.70%	1.75%	1.81%	1.81%	1.81%

Review

Shorter-dated gilt yields rose during the quarter, as the geo-political outlook improved and the likelihood of a disorderly European Union (EU) departure reduced. In October, the UK government secured a new withdrawal agreement with the EU, a result of the Conservative Party securing a large majority in the December General Election. Elsewhere, falling geo-political tensions led to an unwinding of safe-haven demand for government debt. The FTSE Actuaries UK Gilts under 5-year Index started the month at 0.32%, falling to a low of 0.26% before rising to a high of 0.61% in December and ending the quarter at 0.56%.

The US Federal Reserve added yet more monetary policy stimulus by cutting its main interest rate by 0.25% in October, the third such policy action in 2019. The chances of further rate reductions in the near-term appear to have declined however, with further easing conditioned on a 'material reassessment' of the US economy. With inflation remaining subdued in Europe, the European Central Bank resumed its asset purchase programme. As the period drew to a close, the US and China agreed on an initial deal to halt further trade tariffs, roll back selected existing tariffs in addition to pledging to engage in further negotiations.

Credit spreads tightened over during the quarter as investors continued their search for yield. This particularly benefitted the lower-rated credit quality segments of the market, where spreads narrowed more considerably. The declining risk premiums also helped offset the adverse impact of duration as underlying gilt yields rose. This led credit to outperform relative to government debt.

Performance & Activity

The Amity Short-Dated Bond Fund's total return outperformed its iBoxx Non-Gilts 1-5 years ex BBB benchmark over the period under review. The fund's outperformance was primarily driven by the positive contribution from credit selection, notably amongst the fund's holdings in the financial sector, as credit spreads on higher-beta credits tightened significantly.

Robust cash inflows were deployed by establishing new positions in Transport for London 2.125% 2025 green bond, Places for People 4.25% 2023, Land Securities 1.974% 2024-2026, Aviva 6.625% 2041 (2021 call), Legal & General 10% 2041 (2021 call), Credit Agricole 1.25% 2024, HSBC 2.175% 2023, as well as Fidelity International 7.125% 2024. The fund also added to existing holdings in Coventry Building Society 1.5% 2023, Zurich Finance 6.625% perp (2022 call), Anglian Water 1.625% 2025 Green bond, Yorkshire Water 6.5876% 2023 whilst selling out of its holdings in Heathrow Funding 5.225% 2023 and Heathrow 9.2% 2021.

Outlook

With part resolution to some of the global anxieties that have impinged on the prospects for growth, such as the US-China trade dispute and the UK's withdrawal from the European Union, comes some much-needed certainty

and a potential boost to consumer confidence. Whilst major central banks remain ready to support faltering economies with loose monetary policy, the limits of this strategy are becoming increasingly apparent not least in the scarcity of high quality assets and associated adverse impacts on the operation of short-term funding markets. Consequently, there is a concerted effort to highlight the effectiveness of adopting favourable fiscal policy. For instance, the re-elected UK government is revisiting fiscal rules to allow for more infrastructure investment.

With an upcoming presidential election later this year, the likelihood of further US fiscal stimulus is also higher. For now, monetary policy may play a less pronounced role absent a material economic shock. Whereas this could support a lower for longer interest rate outlook, the potential for a market correction akin to that witnessed in late 2019 remains elevated.

For the UK, progress on trade talks with the European Union warrants close monitoring given that the probability of a disorderly departure from the EU is not negligible. Despite the ongoing search for yield, our view remains that the market's late-cycle characteristics warrant caution on credit. Our investment approach continues, nevertheless, to focus on good quality short-dated credits with attractive yields and spreads.

Yields

The Distribution Yield reflects the amounts that may be expected to be distributed over the next 12 months as a percentage of the mid-market share price of the fund as at the date shown. The Underlying Yield reflects the annualised income net of expenses of the fund (calculated in accordance with relevant accounting standards) as a percentage of the midmarket share price of the fund as at the date shown. Both Yields are based on a snapshot of the portfolio on that day. The yields do not include any preliminary charge and investors may be subject to tax on distributions. The Distribution Yield is higher than the Underlying Yield because the fund's expenses are charged to capital. This has the effect of increasing the distributions for the year and constraining the fund's capital performance to an equivalent extent.

Further Information

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