This information is for Investment Professionals only and should not be relied upon by private investors.

Amity Short-Dated Bond Fund – Q1 2019 Commentary

Quarter to end March 2019

Performance

	3 months	6 Months	1 year
Fund Performance (B class)	1.04%	1.05%	1.35%
iBoxx Non-Gilts ex BBB 1-5 TR GBP	1.17%	1.45%	1.95%
IA £ Corporate Bond	3.90%	3.35%	2.97%
Sector Quartile	4	4	4

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

Yields

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Distribution	-	-	1.77%	1.83%	1.86%	1.80%
Underlying	-	-	1.77%	1.83%	1.86%	1.80%

Review

Gilt yields on shorter-dated maturities continued to fall, on the back of safe-haven demand as geo-politics and trade uncertainty weighed on the prospects for global growth. Earlier hopes that a parliamentary consensus could be reached on the terms of the UK's withdrawal from the European Union (EU), which had lifted bond yields in February, were dashed as the quarter drew to a close. Similarly, the US-China trade dispute remained unresolved. The FT Gilts under 5-year yield fell from 0.80% to close at the low of 0.66%, after registering a high of 0.88% in February.

Following its strategy of exercising patience in its assessment of further rate hikes in January, the US Federal Reserve revised down its interest rate outlook for the year ahead. Given the recent slowdown in global economic growth, the bank's dovish pivot elicited a strong reaction from debt markets. The European Central Bank (ECB) also announced another round of monetary support for Eurozone banks, to stimulate lending within the region, whilst also cutting its growth forecasts for the year ahead.

Apart from a small decline in sentiment towards the end of the quarter, risky assets more than recouped the losses incurred as 2018 drew to a close, with risk premiums declining significantly. The narrowing in credit spreads, along with the decline in benchmark gilt yields led short-duration corporate debt to outperform gilts over the period under review.

Performance & Activity

The Amity Short-Dated Bond Fund lagged behind its iBoxx Non-Gilts 1-5 years ex BBB benchmark and its IA Corporate Bond sector over the period under review. Despite benefitting from narrowing credit spreads as risk premiums declined, our exposure to shorter duration held back relative performance, notably on the strong rally in the longer-end of the yield curve.

We registered another quarter of strong cash inflows which were invested via new purchases of Anglian Water 5.837% 2022, Lloyds 7.5% 2024, HSBC 6.5% 2024, Wellcome Trust 4.75% 2021 and Society of Lloyds 4.75% 2024. It also added to holdings in Prudential 6.875% 2023, Northern Powergrid 7.25% 2022, Munich Re 6.625% 2042 (2022 call), Close Brothers plc 3.875% 2021,

Phoenix 5.75% 2021, Close Brothers Group plc 2.75% 2023, Coventry Building Society 1.875% 2023 and Northern Electric 8.875% 2020. There was a sale of Marks & Spencer 6.125% 2021 and Lloyds Jan 2020 covered FRN was switched into Lloyds 5.125% covered bond, thereby reducing floating rate exposure.

Outlook

The sharp decline in bond yields as the quarter drew to a close serves as a timely reminder of how precarious market sentiment is with regard to geopolitical risks, with global trade uncertainty beginning to impinge on economic growth. The UK's withdrawal from the EU is yet to be agreed, with the Bank of England inclined to support the economy via looser monetary policy on the basis of heightened uncertainty, albeit with respect to a stated level of tolerance for inflation. In the meantime, the global central banks' newly adopted dovish positioning is likely to exert downward pressure on yields or keep them range-bound at the very least. It is worth highlighting that a successful resolution to either the US-China trade dispute or the current Brexit negotiations would be catalysts for a bond market correction. We remain of the view that the market's late-cycle characteristics, notwithstanding greater political uncertainty, support the case for higher interest rates with the risk that the market reprices lower as political headwinds dissipate. In that context, our favoured approach also continues to focus on higher quality credit with the risk-reward trade-off appearing less favourable on lower-rated debt after the first quarter's rally in risky assets. A shorter relative duration position remains prudent therefore, with our focus remaining on high 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. This has the effect of increasing the distributions for the year and constraining the fund's capital performance to an equivalent extent.

Further Information

To obtain further information please speak to your normal EdenTree representative, visit www.edentreeim.com or call our support team on 0800 011 3821.

This document has been prepared by EdenTree Investment Management Limited for Financial Advisors, other intermediaries and other investment professionals only. It is not suitable for private individuals. This document has been produced for information purposes only and as such the views contained herein are not to be taken as advice or recommendation to buy or sell any investment or interest thereto.

A full explanation of the characteristics of the investments is given in the Key Investor Information Document (KIID). Any forecast, figures, opinions statements of financial market trends or investment techniques and strategies expressed are unless otherwise stated, EdenTree Investment Management's own at the date of this document. They are considered to be reliable at the time of writing, may not necessarily be all-inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecast made will come to pass. Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance is not necessarily a guide to future returns.