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

# Amity Short-Dated Bond Fund – Q3 2019 Commentary

Quarter end September 2019

**Performance**

| | 3 months | 6 Months | 1 year |
|---|---|---|---|
| Fund Performance (B class) | 0.90% | 1.72% | 2.81% |
| iBoxx Non-Gilts ex BBB 1-5 TR GBP | 0.92% | 1.61% | 3.08% |
| IA £ Corporate Bond | 3.06% | 5.47% | 9.01% |
| Sector Quartile | 4 | 4 | 4 |

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

**Yields**

| | Apr-19 | May-19 | Jun-19 |
|---|---|---|---|
| Distribution | 1.34% | 1.76% | 1.71% |
| Underlying | 1.34% | 1.76% | 1.71% |

## Review

Shorter-dated yields continued to fall significantly during the quarter as geo-political uncertainty and weak economic data weighed on market sentiment. As the UK government increased its preparations for a disorderly European Union (EU) departure, bonds rallied. Additionally, the Bank of England voted unanimously to hold the base rate at 0.75%, but indicated readiness to support the economy in the event of a slowdown. The FTSE Actuaries UK Gilts under 5-year Index fell from a high of 0.61% at the beginning of the quarter to a low of 0.29% in September, before ending the period at 0.32%.

The US Federal Reserve cut its main interest rate by 0.25% in both July and September on the back of a weakening economic outlook. A declining growth outlook in Europe also saw the European Central Bank (ECB) cut its deposit facility interest rate by 0.1% and announce further bond purchases. During the quarter, an inversion of the US yield curve, which is typically interpreted as a recession signal, occurred. This raised further concerns about the potential of global slowdown, particularly as a US-China trade war truce continued to prove elusive.

This ongoing political uncertainty coupled with weak economic data continued to drive safe-haven demand and inspired a flight to quality fixed income, exerting downward pressure on core government bond yields. Despite a marginal widening in credit spreads however, short-dated corporate bonds outperformed gilts of the same maturity over the last quarter.

## Performance & Activity

On a total return basis, the Amity Short-Dated Bond Fund slightly underperformed its iBoxx Non-Gilts 1-5 years ex BBB benchmark. A positive contribution from credit selection, notably amongst the fund's holdings in the financial sector just about offset the adverse impact of its shorter relative duration position as benchmark gilt yields declined.

Further strong cash inflows were deployed by establishing new positions in Anglian Water 1.625% 2025 green bond, Zurich Finance 6.625% perp (2022 call), Northern Powergrid 2.5% 2025, National Grid Gas plc 7% 2024, and the newly issued Lloyds Bank CM plc 1.75% 2024 as well as by adding to existing holdings. The fund added to its holdings in HSBC Bank plc 6.5% 2023, Friends Life Holdings 8.25% 2022, Lloyds Bank 2.5% 2022 social bond, Bupa Finance 2% 2024 and Coventry Building Society 1.875% 2023. It also sold out of its holding in SSE plc 5.875% 2022 and General Electric 5.5% 2021.

## Outlook

With no resolution to the ongoing geo-political risks in sight, the challenging global trade backdrop across various regions has begun to crystallise into softer industrial and manufacturing production. Consequently, an outlook of declining global growth has seen the major central banks, led by the US Federal Reserve, move to loosen their monetary policy via interest rate cuts whilst setting out a strong case for the implementation of fiscal policy support. With the UK's withdrawal from the EU yet to be agreed, the Bank of England has so far kept its policy settings

unchanged, despite warning of potential shocks from a 'no-deal' EU departure and reiterating its pledge to bolster the economy in the event of a slowdown. The European Central Bank's stimulus package consisting of a deposit facility rate cut, increased long-term bank funding in addition to a resumption of asset purchases, was larger than expected and could also continue to exert downward pressure on yields, which have since revisited historic lows. A successful conclusion to the US-China trade dispute, ahead of next year's US presidential elections could see yields rise however, as would an agreement for the UK to leave the EU in an orderly manner. Our view remains that the market's late-cycle characteristics warrant caution on credit and highlight increased potential for a market correction. 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

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.