Q3 2020 COMMENTARY

AMITY SHORT DATED BOND FUND

QUARTER TO END SEPTEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	0.81%	3.44%	1.60%	4.49%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	0.51%	3.02%	1.91%	5.47%	-	-
IA £ Corporate Bond	1.58%	9.06%	4.22%	13.76%	-	-
Sector Quartile	4	4	4	4	-	-

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

YIELDS

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Distribution	1.83%	1.73%	1.69%	1.62%	1.55%	1.52%
Underlying	1.83%	1.73%	1.69%	1.62%	1.55%	1.52%

REVIEW

Shorter-dated gilt yields remained in negative territory as central bank guidance on interest rates remained dovish**.** The rebound in domestic growth largely owed itself to pent-up demand driven by a combination of fiscal stimulus and an unwinding of pandemic-related restrictions. The FTSE Actuaries UK Gilts under 5-year Index commenced the quarter at -0.07% and rose to a high of 0.03%, before falling to a low of -0.15% and ending the period unchanged at -0.07%.

In August, the US Federal Reserve altered its monetary policy framework to consider an average rate of inflation, implying greater tolerance for temporary consumer price increases above a target level. After intense negotiations, European Union leaders agreed on the framework for a €750bn recovery fund to support member economies most impacted by the ongoing pandemic.

Credit spreads tightened over the period under review. Ongoing central bank asset purchases continued to inspire investors' continued search for yield, with the lower-rated and 'high-beta' debt segments of the market benefitting the most. Credit outperformed sovereign debt over the quarter therefore, as risk premia tightened.

PERFORMANCE & ACTIVITY

The Amity Short-Dated Bond Fund's total return was ahead of its iBoxx Non-Gilts 1-5 years ex BBB benchmark over the period under review. The fund's outperformance was driven by its credit selection in financials, particularly through its allocation to the insurance sub-sector, as credit spreads narrowed more significantly on those holdings.

The Fund continued to benefit from improved risk sentiment as the economy recovered, favouring corporate debt rather than the supra-national debt that makes up a significant proportion of the Fund's benchmark index.

Sustained strong cash inflows during the period were deployed by establishing new holdings in Neder Waterschapbank 0.25% 2025, Skipton 1.75% 2022, National Grid 8.75% 2025, Places for People 2.875% 2026, Nationwide 5.625% 2026 covered bond, National Australia Bank 0.5575% 2025 covered FRN and Royal Bank of Canada 0.638% 2024 covered FRN. The Fund also added to existing positions in Fidelity 7.125% 2024, A2 Dominion 4.75% 2022, National Grid 7% 2024, Northern Powergrid 7.25% 2022, Zurich 6.625% Perp (2022 call), Co-operative Rabobank 4.875% 2023, Phoenix 5.75% 2021, Coventry 1% 2025, Places for People 4.25% 2023, Nationwide 3% 2026, Land Securities 1.974% 2024, Lloyds 1.75% 2024, Coventry Building Society 1.5% 2023 and Credit Agricole 1.25% 2024.

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OUTLOOK

Resurging COVID19 infection rates around the world have checked previous optimism around the pace of economic recovery post the rebound in growth after moves to lift pandemic-related emergency restrictions. Geopolitical risks in the form of UK-EU trade negotiations have perhaps risen, with upcoming US presidential elections also proving to be an obstacle to agreement on further US fiscal stimulus.

Unemployment in the UK may have begun to crystallise, as the government's furlough scheme ends and employers reassess staffing requirements in what remains a fragile economic setting. It is therefore likely that central banks maintain present accommodative policy settings, notably in the event that another phase of health-related restrictions impairs business activity. Such conditions could warrant safe-haven demand for government debt. A cautious stance towards risk has been maintained given the credible possibility of rising risk premia, were the global economy to take a turn for the worse.

We therefore remain vigilant in seeking out opportunities to add to high quality defensive credits, scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk in a low-yielding environment that owes itself largely to central bank intervention. Our investment approach continues, therefore, to focus on good quality short-dated credits with attractive yields and spreads.

To obtain further information please speak to your normal EdenTree representative, visit **www.edentreeim.com or call** our support team on **0800 358 3010**

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