Q4 2020 COMMENTARY
AMITY SHORT DATED BOND FUND

QUARTER TO END DECEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	0.78%	1.60%	2.29%	4.84%	-	-
iBoxx Non-Gilts ex BBB 1-5 TR GBP	0.61%	1.11%	2.68%	5.58%	-	-
IA £ Corporate Bond	3.32%	5.06%	7.86%	15.53%	-	-
Sector Quartile	4	4	4	4	-	-

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

YIELDS

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Distribution	1.62%	1.55%	1.52%	1.17%	1.21%	1.17%
Underlying	1.62%	1.55%	1.52%	1.17%	1.21%	1.17%

REVIEW

Short-dated gilt yields declined on strong demand for safe-haven assets. Whilst geo-political factor such as UK-EU trade negotiations remained key, resurging COVID19 infection rates and consequent health-related restrictions were of greater concern. Vaccine breakthrough news boosted risky assets however. The Bank of England expanded its asset purchase programme by a larger-than-expected £150 billion. The FTSE Actuaries UK Gilts under 5-year Index began the period at -0.07%, rising to a high of 0.03% in November, before falling to end the period at the low of -0.16%.

The US Federal Reserve kept monetary policy settings unchanged. Progress on discussions between US legislators on availing additional fiscal stimulus proved key after the market-friendly result to the elections. In Europe, the Central Bank's recalibration of its policy instruments on updated economic forecasts brought no size alteration but extended the duration of accommodation to 2022.

Credit spreads tightened, notably on the back of vaccine news. This was particularly true for COVID-exposed sectors in addition to the 'high-beta' segments of global bond markets. Investor search for yield was also a recurring theme, with corporate bonds significantly outperforming sovereign bonds over the quarter as risk premia declined.

PERFORMANCE & ACTIVITY

The Short-Dated Bond Fund's total return of 0.78% was ahead of its iBoxx Non-Gilts 1-5 years ex BBB benchmark 0.61% return over the period under review. The fund's outperformance was driven by its credit selection in financials, with its holdings in 'higher-beta' credits having rallied more as credit spreads tightened.

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.

Significant cash inflows were utilised by establishing new holdings in Landesbank Baden-Wurtemberg's 1.5% 2025 and 1.125% green bonds, A2 Dominion 4.5% 2026, Transport for London 2.25% 2022, HSBC 2.256% 2026 (2025 call), Siemens 0.875% 2023, Santander 2.75% 2023, World Bank 0.75% 2026, International Finance Corp 0.25% 2025 and Santander UK 5.75% 2026 covered bond. The Fund also added to its positions in Zurich 6.625% perp (2022 call), Munich Re 6.625% 2042 (2022 call), Direct Line 9.25% 2042 (2022 call), Pension Insurance Corp 6.5% 2024, Santander 1.375% 2024, Anglian Water 6.875% 2023, Places for People 2.875% 2026, Lloyds Bank 7.5% 2024, Places for People 4.25% 2023 and Anglian Water 1.625% 2025 green bond.

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OUTLOOK

Whilst the announcement of COVID19 vaccines is a welcome development and offers a boost to risk sentiment for the year ahead, the progress of the various immunisation programmes globally is just as important to near-term growth prospects. Renewed health-related restrictions in response to resurging infection rates may well halt prior economic momentum, as would a more challenging adjustment to the UK's new trading relationship with the European Union. The market-friendly conclusion to recent US elections arguably pares back the level of geopolitical uncertainty however.

Central banks have maintained accommodative stances. With fiscal stimulus likely preferred, policymakers may wish to assess how conditions evolve prior to adjusting present monetary settings. Although gilts will benefit from the expanded QE programme, the risks of higher inflation and the implications of larger government borrowing could weigh on bonds, notably those with longer-dated maturities. Guidance of perceived higher tolerance for inflation is well worth noting. A better mid-term outlook supports the case for risky assets nevertheless, with cyclicals and 'higher-beta' credits poised to benefit as investors press ahead with a search for yield.

We remain vigilant in seeking out opportunities to add to high quality 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 to focus on good quality short-dated credits with attractive yields.

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

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