Q3 2020 COMMENTARY

AMITY STERLING BOND FUND

QUARTER TO END SEPTEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	2.26%	9.42%	4.20%	11.53%	25.36%	64.96%
Amity Sterling Bond Benchmark	1.16%	8.19%	3.82%	15.59%	25.56%	62.46%
IA £ Strategic Bond	1.94 %	10.03%	3.10%	10.10%	22.76%	53.56%
Sector Quartile	2	3	2	2	3	2

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	4.28%	4.07%	3.97%	3.76%	3.75%	3.61%
Underlying	4.28%	4.07%	3.97%	3.76%	3.75%	3.61%

REVIEW

Gilt yields rose over the quarter, particularly on longer-dated maturities as market participants reassessed inflation expectations in light of a shift in central bank policy. The easing of pandemic-related restrictive measures led to a release of pent-up demand in the UK economy. Despite maintaining its base rate at 0.1%, Bank of England policymakers acknowledged the possibility of sub-zero interest rates should economic conditions warrant such policy. The 10-year gilt yield began the period at 0.17% and fell to a low of 0.08% before rising to a high of 0.34% in August and ending the period at 0.23%.

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, with longer-dated maturities underperforming and the yield curve steepened.

PERFORMANCE & ACTIVITY

The Amity Sterling Bond Fund's return outperformed both its iBoxx Sterling Non-Gilts benchmark and its IA Strategic Bond Sector peer group over the period under review. The fund's outperformance was driven by its credit selection in financials, primarily through its exposure in preference shares, as riskier assets continued to rebound from their March lows.

Towards the end of the period, with credit spreads ticking higher, its lower-beta utilities also contributed positively to relative performance as did the Fund's shorter relative duration positioning as longer-dated git yields rose.

Robust cash inflows during the period were used to establish positions in the newly-issued Assura Finance plc 1.5% 2030 social bond, Burberry 1.125% 2025 sustainability bond, Skipton 2% 2026, Bupa 4.125% 2035, PRS Finance 1.75% 2026, SSE 3.74% Perp (2026 call), Tesco 3.322% 2025, Next 4.375% 2026 and Municipality Finance 1.25% 2022. The fund also added to existing holdings in Golden Lane 4.375% 2021, Belong 4.5% 2026, Axa 5.625% 2054 (2034 call), Vodafone 4.875% 2078 (2025 call), Co-Op 5.125% 2024 sustainability bond, Pension Insurance 7.375% Perp (2029 call), Alnwick Garden Trust 5% 2030 and Places for People 4.25% 2023.

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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. To that end, we are also adding to duration where we believe valuations reflect inherent risks. We also continue to view the Fund's shorter relative duration profile as appropriate, relying on supra-national debt and higher cash levels to enhance overall portfolio liquidity whilst preserving capital.

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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