Q4 2020 COMMENTARY
AMITY STERLING BOND FUND

QUARTER TO END DECEMBER 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	3.70%	6.04%	6.38%	13.06%	29.73%	72.54%
Amity Sterling Bond Benchmark	3.12%	4.32%	7.80%	16.90%	31.06%	71.09%
IA £ Strategic Bond	3.84%	5.84%	6.08%	13.00%	27.23%	61.51%
Sector Quartile	2	3	2	2	3	2

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	3.76%	3.75%	3.61%	3.54%	3.50%	3.36%
Underlying	3.76%	3.75%	3.61%	2.99%	2.95%	2.81%

REVIEW

Gilt yields fell marginally over the quarter, driven by geo-political factors such as progress on the UK-EU trade negotiations and the US presidential elections. Resurging COVID19 infection rates were also of concern, despite optimism derived from November's vaccine breakthroughs. The Bank of England maintained its base rate at 0.1% but expanded its asset purchase programme by a larger-than-expected £150 billion. The 10-year gilt yield began the period at 0.23%, rising to a high of 0.41% in November, before falling to end the period at 0.20%.

The US Federal Reserve kept monetary policy settings unchanged. Progress on discussions to avail additional fiscal stimulus proved key after the market-friendly election results. 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 as risk appetite improved on the back of the 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 Sterling Bond Fund's return outperformed its iBoxx Sterling Non-Gilts benchmark but was lower than its IA Strategic Bond Sector peer group over the period under review. The fund's performance was primarily down to credit selection in the financials and consumer non-cyclicals sectors, which registered the strongest response to the positive vaccine news.

In addition, the Fund's niche exposures to both PIBs and preference shares proved beneficial to performance, as these securities also rallied in tandem with other risky assets in November. Longer-duration credit gains were also particularly strong, with the gilt yield curve registering little change.

Strong cash inflows are utilised by establishing holdings in the newly-issued Pension Insurance Corp 3.625% 2032, Travis Perkins 3.75% 2026 and Greensleeves 5% 2030 retail charity bond as well as new positions in HSBC Holdings 6% 2040, Standard Chartered 5.125% 2034 and Dolphin Square 4.25% 2026 retail charity bond. The Fund also added to existing holdings in Next Group plc 3.625% 2028, Bupa Finance plc 4.125% 2035, Scottish Widows 7% 2043, Royal London 4.875% 2049 (2039 call), Legal & General 3.75% 2049 (2029 call), Aviva 8.375% preference shares, Assura Finance plc 1.5% 2030 social bond, as well as Belong 4.5% 2026 and Charities Aid Foundation 5% 2026 retail charity bonds.

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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. We continue to view the Fund's overall shorter relative duration profile as appropriate, relying on supra-national debt and higher cash levels to enhance overall portfolio liquidity whilst preserving capital.

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.

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