RESPONSIBLE AND SUSTAINABLE STERLING BOND FUND

COMMENTARY FOR QUARTER TO END MARCH 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	-1.10%	2.56%	12.22%	13.09%	27.52%	68.22%
Amity Sterling Bond Benchmark	-4.11%	-0.12%	6.98%	11.81%	19.78%	65.37%
IA £ Strategic Bond	-1.09%	2.71%	12.99%	12.86%	24.10%	56.86%
Sector Quartile	2	2	2	2	3	1

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

YIELDS

	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20
Distribution	3.33%	3.37%	3.42%	3.36%	3.50%	3.54%
Underlying	2.78%	2.82%	2.87%	2.81%	2.95%	2.99%

REVIEW

Gilt yields rose sharply over the quarter on the back of concerns about the impact of large-scale US fiscal stimulus and higher inflation, notably in February. Yields were particularly higher on longer-dated maturities as optimism about a vaccine-led recovery increased. The Bank of England unanimously decided to maintain its base rate at 0.1% despite highlighting ongoing preparations for sub-zero interest rates. The 10-year gilt yield began the period at 0.20% and declined to 0.17% before rising to a high of 0.88% in March and ending the period at 0.85%.

The US Federal Reserve, like the Bank of England, was reluctant to respond to bond market volatility, justifying it as a consequence of improving growth prospects. The European Central Bank moved to accelerate the pace of its emergency asset purchases in March however, noting the steeper yield curve as an ‘unwarranted’ tightening of financial conditions.

Credit spreads were marginally lower over the period with higher-beta segments continuing to outperform in tandem with the rally risky assets. The significant rise in underlying gilt yields was the dominant factor however, with longer-dated corporate debt faring worse than the short end of the yield curve. Corporate bonds were therefore ahead of gilts over the quarter, albeit whilst having declined as well.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund’s total return considerably outperformed its iBoxx Sterling Non-Gilts benchmark and was in-line with its IA Strategic Bond peer group for the period under review. The Fund’s shorter relative duration position was arguably the primary driver of performance, with credit selection in Financials and consumer non-cyclicals also contributing positively to returns as risk sentiment improved.

The Fund’s exposures to PIBs also rallied along with other risky assets, notably in January, although preference shares gave up earlier price gains as the quarter drew to a close. Despite the latter’s weaker returns in March, the Fund’s niche holdings were a positive contributor to Fund performance over the quarter as a whole.

Robust cash inflows were used to establish new positions in DS Smith 2.375% 2029 and Lloyds Banking Group 2.707% 2035. The Fund also added to existing holdings in Travis Perkins 4.5% 2023, Standard Chartered 5.125% 2034, Co-Operative Group 11% 2025, John Lewis 4.25% 2034, Skipton Building Society 2% 2026 (2025 call), Morrisons 3.5% 2026, M&G 5.56% 2055 (2035 call), Phoenix 5.867% 2029, General Accident 7.875% preference shares, Greensleeves 5% 2030 Retail Charity Bond and Assura 1.625% 2030 social bond.

OUTLOOK

The success of ongoing COVID19 vaccination programmes, or lack thereof, remains a key determinant of near-term growth prospects and market risk sentiment. In the interim, surging infection rates have led some governments to reinstate tough health-related restrictions, notably in Europe. The adverse consequences of such curbs to activity, despite the business communities' ability to adapt to the highly uncertain environment, are bound to strengthen the case for further fiscal support.

For the United States, a large scale infrastructure spending plan funded by taxes on larger corporations is now being debated. The threat of higher inflation, notably beyond base effects brought about by year-on-year changes, could exert further upward pressure on yield curves. A bifurcation in the monetary policy stances of the major central banks has emerged, following the European Central Bank's decision to enhance the pace of its emergency asset purchases to counteract higher longer-dated yields. The backdrop of improving economic growth nevertheless, as COVID-related controls are unwound remains favourable for risky assets. In particular, we view cyclicals and 'higher-beta' credits as 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 still 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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