RESPONSIBLE AND SUSTAINABLE STERLING BOND FUND

COMMENTARY FOR QUARTER TO END JUNE 2021

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	1.56%	0.44%	6.51%	15.12%	28.49%	67.74%
Amity Sterling Bond Benchmark	1.71%	-2.47%	1.74%	13.54%	14.74%	64.14%
IA £ Strategic Bond	1.84%	0.77%	6.66%	15.62%	23.62%	58.32%
Sector Quartile	3	2	2	2	2	2

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

YIELDS

	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21
Distribution	2.89%	3.13%	3.30%	3.33%	3.37%	3.42%
Underlying	2.34%	2.58%	2.75%	2.78%	2.82%	2.87%

REVIEW

Gilt yields fell over the quarter on renewed concerns around the ongoing COVID19 pandemic. Global central bankers moved to ease concerns about inflation by highlighting drivers of price increases as ‘transitory’. An improving outlook was registered however, with progress on vaccination programmes allowing for the resumption of business activity, a pickup in employment and further economic growth. The 10-year gilt yield began the period at 0.85% and rose to a high of 0.90% in May before declining in June to 0.72%.

Whereas the US Federal Reserve has since signalled a more hawkish interest rate outlook, policymakers are yet to see “substantial progress” required to implement tighter monetary policy including a tapering of asset purchases. The Bank of England has also maintained its ultra-loose policy stance, with the European Central Bank keeping its accelerated pace of emergency asset purchases in place as well.

Credit spreads tightened marginally with the investors’ search for yield seeing higher-beta credits continue to outperform as risky assets strengthened further. Duration continued to be the main driver behind overall corporate bond returns therefore, with longer-dated tenors outperforming as yields fell. Corporate bonds were broadly in-line with gilts over the quarter.

PERFORMANCE & ACTIVITY

The Sterling Bond Fund’s total return underperformed its iBoxx Sterling Non-Gilts benchmark and IA Strategic Bond peer group for the period under review. This was largely due to the Fund’s shorter relative duration position as longer-dated maturities saw stronger price gains. There was also an adverse impact from credit selection in consumer non-cyclicals despite the Fund benefitting from its financial sector exposures as higher-beta credits outperformed.

The Fund’s niche exposures such as preference shares continued to rally in tandem with other risky assets, notably in April, as risk appetite improved following a stronger-than-expected rebound to economic activity. These holdings were also a positive contributor to Fund performance over the quarter.

Strong cash inflows were used to establish new positions in Assura 1.625% 2033 sustainable bond, Bupa Finance plc 5% 2026, Places for People Homes 3.6255 2028, Close Brothers 1.625% 2030, National Express 4.25% perp (2026 call), Kommunalbanken 0.25% 2025 and Aviva 4% 2055 (2035 call). The Fund also added to existing holdings in Legal & General 3.75% 2049 (2029 call), Pension Insurance Corp 7.375% perp (2029 call), Standard Chartered 5.125% 2034, Travis Perkins 3.75% 2026, Next plc 4.375% 2026, National Grid 5.875% 2073 (2025call), Royal London 4.875% 2049 (2039 call), DS Smith plc 2.875% 2029 and Tesco plc 2.75% 2030.

OUTLOOK

As global economic growth continues to accrue benefits derived from the resumption of business activities previously hindered by health restrictions, rising infection rates may yet keep the pace of such progress in check. Vaccination programmes around the developed world have advanced, with the focus shifting to efficacy rates against the emerging COVID19 variants.

Guidance that the present drivers of higher prices are transitory in nature has central banks reluctant to pare back monetary stimulus, even whilst they acknowledge that the risks to growth and inflation are tilted to the upside. Thus far, the US Federal Reserve has even brought forward expectations on the timing of interest rate hikes but is yet to fully contemplate the curtailment of ongoing asset purchases. The Bank of England may even have to alter policy sooner should higher average wage costs persist in the face of strengthening employment. In a fast rebounding global economy still experiencing supply chain constraints and labour shortages, inflation risks are arguably still under-priced. Fundamentally, therefore, we see limited room for yields to decline based on the robust economic backdrop. Risky assets such as cyclicals and ‘higher-beta’ credits remain favoured.

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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