Q2 2020 COMMENTARY

AMITY SHORT DATED BOND FUND

QUARTER TO END JUNE 2020

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	2.61%	0.69%	1.69%			
iBoxx Non-Gilts ex BBB 1-5 TR GBP	2.50%	1.54%	2.33%			
IA £ Corporate Bond	7.37%	2.66%	5.74%			
Sector Quartile	4	4	4			

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

YIELDS

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Distribution	1.76%	1.76%	1.76%	1.83%	1.73%	1.69%
Underlying	1.76%	1.76%	1.76%	1.83%	1.73%	1.69%

REVIEW

Shorter-dated gilt yields fell into negative territory on the back of deteriorating economic activity. In May, the first negative-yielding gilt was issued as policymakers contemplated potential merits of a sub-zero interest rate. Despite maintaining its base interest rate at 0.1% in June, the Bank of England announced an additional £100 billion in asset purchases. Consequently, credit spreads tightened from highs set in March. The FTSE Actuaries UK Gilts under 5-year Index started the month at 0.16% and fell to close at the low of -0.07%.

The US Federal Reserve expanded its purchase eligibility criteria in April to include recently downgraded sub-investment grade debt, while making further technical adjustments to its stimulus programme in June to allow for the direct purchase of corporate debt so as to facilitate its implementation. The EU also moved to propose a €750 billion recovery plan to extend financial assistance to member countries impacted by the COVID19 pandemic however, the framework by which it operates is yet to achieve unanimous approval.

After having risen considerably in March, in tandem with the sharp sell-off, credit spreads tightened as investor risk appetite improved in response to expansionary monetary and fiscal stimulus measures. The 'higher-beta' segments of the credit market as well as the lower-rated quality debt such as high yield, which bore the brunt of the declines earlier in year, bounced back significantly. Credit therefore outperformed sovereign debt over the period.

PERFORMANCE & ACTIVITY

The Amity Short-Dated Bond Fund's total return was ahead its iBoxx Non-Gilts 1-5 years ex BBB benchmark over the period under review. The fund's relative outperformance was primarily driven by its holdings in the financials sector, as risky assets recouped some of the sharp declines registered in the previous quarter on the back of strong central bank support.

With lower-rated debt registering a stronger rebound as investor risk appetite improved, the Fund was better placed to benefit from the rally in risky assets as compared to its higher quality benchmark that possesses a larger allocation to supra-national debt.

Strong cash inflows were deployed by establishing new positions in World Bank 0.5% 2023 Sustainable Development Bond, National Grid 5.875% 2024, Siemens 1% 2025, Bank of Nova Scotia 1.75% 2022 and Nationwide Building Society 3% 2026. The fund also added to existing positions in Munich Re 6.625% 2042 (2022 call), Scentre Group 2.375% 2022, Northern Powergrid 2.5% 2025, Coventry Building Society 1.5% 2023, Land Securities 1.974% 2024, Royal Bank of Canada 1.125% 2025, Lloyds 7.5% 2024, Phoenix 5.75% 2021, Places for People 4.25% 2023 and Transport for London 2.125% 2025 Green bond.

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OUTLOOK

Although economic activity may have picked up as various governments move to ease the emergency restrictive measures that mitigated the spread of coronavirus, near-term growth prospects remain somewhat subdued. Unemployment for instance, the true extent of which has been masked by temporary government job support schemes, is likely to rise as such measures are unwound. With interest rates at or around historic lows and quantitative easing having inspired a swift rebound in risky assets, fiscal stimulus may well remain the policy tool of choice to extend support to specific sectors and or the wider global economy. Renewed US-China trade rhetoric and the strained ongoing UK-EU trade negotiations serve as poignant reminders of current unresolved geo-political risks, as do the recent surges in the number of COVID19 infections in the US. Safe haven demand for government debt, as market participants contemplate the implications of upcoming US presidential elections could therefore persist. Whilst we took advantage of opportunities to pick up high quality defensive credits as risky assets corrected lower towards the end of the previous quarter, the uncertain economic outlook arguably justifies a cautious stance towards risk. We view this as particularly true for a low-yielding environment that largely owes itself to sizeable central bank intervention amidst a rapid growth in money supply. Our investment approach continues, therefore, to focus on good quality short-dated credits with attractive yields and spreads.

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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