

EnCor Fixed Income Strategy

Sub-fund of EnCor Funds SICAV, a.s.

ISIN:	CZ0008043106
Currency:	CZK
Period :	October 2020
Asset under management:	306,9 mil. CZK
Value of share:	1,0681 CZK
Fund performance 12M:	2,36%

Net Asset Value per Share development in CZK



Market update



The deterioration of conditions in global credit markets seen in September and October has reversed as of the time of writing in November, even in the face of a resurgence of COVID-19 and associated economic disruptions in Europe and the USA. Ample Central Bank liquidity back-stops, the US election result, the emergence of credible vaccines for the disease and the promise of further government spending to mitigate the effects of partial lockdowns have all improved credit market sentiment. The low penetration of COVID-19 in East Asian economies, allowing a new global economic cycle to begin, is a longer term positive for economic growth and creditworthiness prospects. The price to pay may be higher inflation.

The severity of the Autumn COVID-19 wave and the associated lockdown measures in the Czech Republic has created fresh uncertainty for service-oriented industries. The effect on Czech exports appears, so far, to be less severe. Concentrated spending on non-discretionary goods (food etc), Czech money supply growth of 16% year-on-year and imported price hikes, via Koruna weakness and commodity price rises look set to keep inflation elevated for now. Czech CPI came in at 2.9% year-on-year for October, just inside the CNB's 3.0% tolerance band. If Czech economic growth rebounds fast from this low base, inflation could accelerate again.

Mark Robinson, Member of the Investment Committee

Portfolio update



Any economic recovery phase and reacceleration of inflation will most likely see yields on bonds rise, resulting in "mark-to-market" losses for holders of those bonds. Our portfolio strategy for the EnCor FIS has been and remains to minimize exposure to such bonds, especially not holding positions in CZ government bonds or low-coupon corporate bonds where yields are likely to rise. We therefore run a "short duration" strategy, avoiding large holdings in bonds with very long maturity profiles.

We thus maintain short-term liquidity in the Fund well above our present 15% limit, though we reduced our position in the 2-week reverse repos backed by the Wood Retail Real Estate Fund in October. We added at the margin to our position in the EPH 4.25% bond and invested in a small position in the Czech koruna-denominated Wood Antillean Higher Ground Fund during the month. Further shorter-term domestic investments are planned for November, deploying the Fund's cash position. The aim is to keep the liquidity cushion relatively high and to capture enhanced return where it is assessed prudent to do so.

Lubor Žalman, Founder of the fund

Contact for investors

Tel: +420 230 234 112
info@encorfunds.com
www.encorfunds.com

Disclaimer

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