Close Portfolio Funds

Monthly fund manager update

April 2024

Giles Parkinson
Managing Director

STRATEGY OVERVIEW

The Close Portfolio Funds seek to achieve resilient returns over the long term through a company-led approach to investing in a multi-asset context. Our strategy of acquiring 'cheap durables' – direct interests in predictable and sustainable businesses that will grow in value and repay their debts purchased at attractive cash-based valuations – is complimented by allocations across fixed income and alternatives as appropriate.

MONTHLY PERFORMANCE REVIEW & ACTIVITY

April saw global equity markets fall approximately -2.4% in sterling terms – unwinding most of the gains in March – while fixed income was also in the red with sterling bonds declining -2.8%. In echoes of 2022, the correlated declines of the major asset classes were driven by stronger-than-expected inflation data in the US. At the start of the year, six rate cuts were being priced by markets - today this stands at just one or two, and in April the two year Treasury yield experienced its largest monthly spike since June last year. Markets also had to contend with a US Q1 GDP print that was weaker than consensus expectations had predicted. Together, these data points had a sobering effect as we headed into the latest corporate earnings season – a test of whether profit growth at the company level can sufficiently offset macroeconomic angst to support equity market performance.

Against this backdrop, performance for the three Portfolio funds and their respective Investment Association (IA) benchmarks was negative in April, but all three remain in positive territory and ahead of benchmark year-to-date.

Our equities continue to trade on a cheaper (higher) free cash flow yield than the average business in the market, whilst offering faster, more predictable growth at higher returns on capital. We continue to tilt portfolio activity this way, favouring equities which have greater headroom for multiple expansion. A new position initiated in April was that taken in Cement Roadstone Holdings (CRH) – a building materials business exposed to positive US infrastructure spending trends. The valuation looks attractive compared to its US-listed peers, and CRH is yet to be included in the major US indices despite its large market capitalisation – eventual inclusion could provide a catalyst for a re-rating. The company only moved its primary listing to the New York Stock Exchange (NYSE) in 2023, having previously been listed on the London Stock Exchange and on Euronext Dublin.

With regards to sales, we exited positions in semiconductor capital equipment provider, Applied Materials, as well as electrical power products provider, Schneider Electric. In both cases, the earnings multiple had extended beyond historical ranges, making any further expansion from here tricky. Within fixed income, we rotated some our sovereign exposure from US Treasuries into UK Gilts while nudging up duration slightly – the UK's path back to its inflation target looks clearer than for the US, which suggests the Bank of England may be cutting rates before the Federal Reserve (Fed).

LOOKING AHEAD

After two years of sideways chop in stocks (outside of the large tech-related names in the US) and a bear market in bonds, we are now the most optimistic we have been during this period on both markets, and our forward strategy changed as a result from last autumn. As long as inflation continues to fall, and there is no confirmation that the US has entered recession, we will maintain a neutral stance on equities. We are looking to clear the hurdle of the first interest rate cut from the Fed before moving outright overweight and swapping sovereign bonds for corporate bonds to lock in higher yields. However, should the economy have slipped into recession by that point, we will move underweight equities, shifting into gold and longer duration in fixed income to protect capital. We remain on the lookout for fresh ideas which can replace outperforming holdings and for the opportunity to buy new cyclical equities on profit warnings.

As a long-term strategy with low turnover we fully expect and recommend that unitholders judge our performance over a period of five years or more.

STOCKS IN FOCUS – INFORMA PLC

This month, our stock in focus is Informa plc, which is held across the Close Portfolio Fund range.

As its name may suggest, Informa's aim is to facilitate growth of the global information economy by connecting professionals to knowledge and relevant customer networks. The crux of this is its exhibitions business (Informa Markets), which is the largest globally (c.6% share). Exhibitions work best when many buyers and sellers are 'in the same room' (known as network effects), meaning that providers tend to dominate specific verticals and seldom face competitive threats. At the same time, governments and states recognise the economic benefits of hosting exhibitions – business travellers are complementary to tourists as they tend to visit during the working week rather than the weekend, and spend considerably more while visiting. Informa's exposure is therefore global, with one of its healthcare exhibitions – Arab Health – being the second largest of its kind in the world.

Exhibitions in their current form have seen off two existential threats over the past few decades: the advent of the internet around the turn of the millennium, and the pandemic / rise of remote working in recent years. Both have led to a 'shake out' of the least necessary events, but ultimately haven't nullified the need for in-person events to connect buyers, sellers and decision makers. As such, Informa's exhibitions long-term growth rate is structurally tied to the rate of innovation / specialisation across the global economy, and, at the exhibition level, organic growth is driven by volumes (the largest exhibitions get bigger), pricing (the 'value' of attending exhibitions increases as they grow) as well as data / add-ons (Informa accumulates and monetises data on each exhibition it runs over the years). This culminates in at least mid-single-digit growth through the cycle.

Informa's other major business, Taylor & Francis, is an academic publisher which curates and publishes scholarly content in academic journals. This is a defensive business (organic growth essentially flat during 2020, for example) and the industry is experiencing a shift towards open access publishing (the 'publisher' pays, rather than the 'reader'). The latter is leading to an acceleration in organic growth rates as the source of funding is shifting towards R&D budgets (universities and governments, for example) and away from pressured library budgets.

ESG

The nature of Informa's business means that the vast majority of emissions (98.5%) are Scope 3 (emissions being the result of activities from assets not owned or controlled by the reporting organisation, but that the company indirectly affects in its value chain). Informa has targeted a 20% decline in Scope 3 emissions by 2030, using 2017 as a baseline, and is in the process of developing a long-term science-based net zero target and a transition plan.

CBAM10028 03.05.2024