

Investment **Insight**

Close Select Fixed Income Fund

November 2017

In this Investment Insight, we take a look at Close Brothers' strategic bond offering – the 'Close Select Fixed Income' fund - with one of the Portfolio Managers, Andrew Metcalf.

Andrew, many external investors will not be familiar with the Select Fixed Income fund. Why?

The short answer is that the fund has not been widely marketed to external investors. Since July 2013, the Fixed Income team have been running Close Select Fixed Income chiefly as an internal fund for Close Brothers' discretionary fund managers.

Why have you chosen to make the fund available to a wider audience?

There are three key reasons we are opening the fund to external investors:

- **Consistent performance:** Performance has been consistently positive, and the fund is a first quartile performer versus the Investment Association ("IA") Strategic Bond sector across every time frame.¹
- **Strong Team:** We believe we have a high quality team of three co-managers to continue building on the performance track-record.
- **Portfolio Size:** The fund now has Assets under Management ("AUM") of £124m, which provides significant portfolio liquidity. But this is only the beginning, and we believe this fund can grow towards an AUM of £1bn.

Overall, we believe the Close Select Fixed Income fund is a compelling product, and we think investors will agree.

What makes the Select Fixed Income fund so compelling to investors?

We believe there are five key reasons why the Close Select Fixed Income fund is a compelling proposition:

- **Flexibility of a Strategic Bond fund** – The fund is not constrained by arbitrary rules requiring an 80% minimum holding in investment grade or high yield bonds. As such, the fund can optimise asset allocation, and pursue the best opportunities across high yield, investment grade and sovereign bonds.
- **Risk of an Investment Grade bond fund** – The fund has a strong investment grade rating (average rating of BBB), and unlike many peers in the Strategic Bond sector, the fund does not invest in equities, nor use complex and expensive derivatives.
- **Income of a High Yield bond fund** – The fund provides an average annual yield of 4.1%¹. This is comparable to the High Yield bond sector, but without as much volatility and credit risk inherent in high yield investment.
- **Positive track record** – The fund has a first quartile performance track record versus the Strategic Bond sector, as well as a positive performance record versus the IA Corporate Bond and IA High Yield sectors since the fund has been managed by the Fixed Income team in July 2013. See Charts 1 and 2 below for detailed performance data.
- **Low Cost** – The fund's Ongoing Charges Figure ("OCF") is 0.44%.

¹ Past performance is not a guide to future performance. The value of any investment and income from it is not guaranteed and can fall as well as rise, so that you may not realise the amount originally invested.

What is the underlying philosophy of the fund?

The core objective of the fund is to deliver a high level of monthly income. We aim to do this by adhering to 4 key principles:

- 1) Investing in the best ideas across investment grade and high yield.
- 2) Remaining unconstrained in terms of credit quality, duration and currencies.
- 3) Adopting a 'keep it simple' approach, and focusing on stock selection.
- 4) Running a best ideas portfolio of 50 – 100 high conviction holdings.

These four principles have generated consistent performance over the life of the fund, and we believe such a straightforward approach is the optimal way to continue driving investor returns over the long term.

There are 3 co-managers running the fund – is this unusual?

In the Strategic Bond sector, funds require expertise across investment grade, high yield and often derivatives. As such, many funds have 2 or 3 co-managers. The Close Select Fixed Income fund greatly benefits from the complementary skills of the 3 co-managers: Ian Goodhand has over 20 years of trading and fixed income portfolio management experience; Andrew Metcalf brings expertise in credit analysis and research; and Stephen Hayde has almost 20 years of experience managing multi-asset portfolios. These complementary skillsets ensure a constant flow of idea generation and robust challenge and debate before any bonds are approved for the portfolio.

Cumulative Performance*						
	YTD	1 yr	2 yrs	3 yrs	4 yrs	July 2013** - Present
Close Select Fixed Income	6.6%	7.2%	16.4%	20.9%	26.1%	26.8%
IA £ Strategic Bond	4.7%	4.8%	11.7%	13.3%	18.6%	21.0%
Quartile Ranking	1	1	1	1	1	1
IA £ Corporate Bond	3.7%	4.3%	13.5%	15.9%	21.7%	24.1%
IA £ High Yield	6.2%	7.5%	14.6%	15.2%	18.7%	22.4%

* Please note the Close Select Fixed Income fund moved to the IA Strategic Bond sector in November 2017. We believe the Close Select Fixed Income fund displays attributes of the IA High Yield sector and the IA Corporate Bond sectors, therefore the long term performance of these IA sectors are shown for comparison purposes only. Source: Close Brothers Asset Management, Nov 2017.

** The Fixed Income team started running this fund in July 2013.

Discrete Performance - to end of last quarter					
	Sep-12	Sep-13	Sep-14	Sep-15	Sep-16
	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17
Close Select Fixed Income	-	5.69%	4.16%	10.78%	3.30%
IA £ Strategic Bond	-	6.02%	1.10%	8.13%	3.26%

Past performance is not a reliable indicator of future results.

The performance shown is the Fund's X unit class from 29 March 2016. Performance prior to this point is based on the Fund's I unit class, which changed its name from A to I effective 10 August 2015.

Further information is available on our website www.closebrothersam.com.

Data source: FE.

Percentage growth on a single pricing basis in sterling with new income reinvested.

Important Information

The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. Past performance is not a guide to future performance. The value of any investment and income from it is not guaranteed and can fall as well as rise, so that you may not realise the amount originally invested. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation. Where links to third party websites are provided, Close Brothers Asset Management accepts no responsibility for the content of such websites nor the services, products or items offered through such websites. CBAM4881. 25.11.2017.