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# Close Diversified Income

## Monthly fund manager update

February 2019

### Performance

Diversified Income rose 1.02% in February, compared to 0.97% for the IA 20-60% sector. This takes the year to date return for Diversified Income to 2.85%. The fund also posted a new all-time high Net Asset Value in February, so all and more of the losses of Q4 2018 have been caught up. Another interesting milestone was also hit in the month – anyone holding the fund since inception would have made over 50% (5.2% average annual return compounded over 8.1 years).

### Market roundup

Trade talks between the US and China continued over the month. Despite no agreement, Trump's decision to delay the 1st March tariff rise (right out of the Theresa May Brexit playbook), was taken as a positive by the market. Fed Chairman, Jerome Powell, continued his U-turn, suggesting Quantitative Tightening could end later this year. China put its foot on the monetary stimulus gas once again, as their banks made the most new loans on record in January (\$477bn). And not to be left out, the Japanese central bank Governor, Haruhiko Kuroda, also turned dovish, saying the central bank was ready to ramp up stimulus if required.

Germany managed to avoid going into recession by the narrowest of margins as they announced Q4 GDP of 0%, after reporting -0.2% in Q3 (a recession is defined as 2 quarters of falling GDP in a row). Despite manufacturing PMIs in Japan (48.5), Germany (47.6), the EU (49.2) and China (49.2) going into contraction stock markets continued their early year rally during February. Even though international equity returns were hampered by sterling's strength they still outperformed the UK market; the US returned 1.9% in GBP terms, Europe returned

2.4% in GBP terms and UK 1.5%. The highlight of the month in the portfolio was Clinigen's deal to buy the US rights to a drug called Proleukin which will lead to earnings upgrades of "at least 25%". The shares ended the month up 20%.

### Equities

Of the 1.02% return in February, a little under half came from the 20% allocation to equities, with Philip Morris, Clinigen and Roche leading the way. No significant changes have been made to the equity allocation over the course of the month.

### Alternatives

In the Alternative space, all the Renewable and PFI funds posted positive returns, whilst the property related holdings were mixed with European holdings off due to a weaker Euro. Gold also fell, largely down to the depreciation in the dollar. The PFI holdings were helped by news of a split in the Labour Party, as 8 Labour MPs defected to form an Independent Group. A weaker Labour party is largely seen as positive news for PFIs given Jeremy Corbyn's historic (and in our opinion unenforceable) rhetoric regarding nationalising PFI schemes. The renewables funds continued to post positive updates, with Bluefield Solar announcing a, "wide ranging asset life extension programme," which is likely to lead to future NAV upgrades.

### Fixed income

Gilts fell in price in February as the 10 year Gilt yield rose from 1.22% to 1.30%. However, corporate bonds outperformed as BBB spreads fell from 2.06% to 2%.

A number of existing short-dated ideas were added to during the month including: Helical 2019 (2.1% yield), Nationwide Perp (callable 2019 with a 3.9% yield) and St Modwen 2019 (2.1% yield). This led to the cash balance in the Fund falling from 5.4% to 3.7%. Yields are quoted as yield to maturity.

## Yield and NAV

The yield on the portfolio reduced to 4% due to the continued rise in the Net Asset Value in the month. The yield on the fund is the result of all the individually picked attractive risk:reward ideas. In this tough environment the hard work continues to find attractive risk:reward ideas across the whole spectrum of asset classes that the Fund is able to invest in.

## Close Diversified Income discrete performance as at 28 February 2019

|                                      | YTD        | 2018        | 2017       | 2016       | 2015       | 2014       |
|--------------------------------------|------------|-------------|------------|------------|------------|------------|
| <b>Close Diversified Income</b>      | <b>2.9</b> | <b>-1.8</b> | <b>5.4</b> | <b>7.8</b> | <b>2.4</b> | <b>5.0</b> |
| IA Mixed Investment<br>20-60% shares | 3.6        | -5.1        | 7.2        | 10.3       | 1.2        | 4.9        |

Source: FE Analytics 05.03.2019; all are X Acc share classes; performance is total returns, net of fees with dividends reinvested.

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