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Managing Director

## Close Portfolio Funds

### Monthly fund manager update

May 2019

#### Review

The Close Portfolio Funds performed well on a relative basis in what was a tough month for equity markets. The Conservative Fund fell by less than 0.1%, while the Balanced and Growth Funds both fell by 0.3%, which compares to returns of -1.0%, -1.6% and -1.9% for the respective IA sectors.

The Funds added three new equity positions in May, diversified across both sectors and regions. The first was Air Products, a US-listed industrial gas company which derives around half of its revenues from long-term contracts. We also added Asahi Group, a Japanese beer brewer with a significant presence in the premium beer space in Europe. We do not believe this is currently being reflected in the valuation, with Asahi trading on some of the lowest multiples amongst global brewers. Longer term investors may remember that we held the shares some years ago, but sold out when they reached our target price. Now we are able to pick them up again at a more attractive valuation we are pleased to be shareholders once more. In Europe, we initiated a position in Yara International, a Norwegian fertiliser producer, which provides exposure to a new sector and increases the diversification within the Fund's equity holdings. The purchases were funded through the reduction of positions in Spirax-Sarco and Rentokil, both of which have had a strong run year-to-date. We also divested our position in BT Group which is facing a number of uncertainties, including a ramp up in investment led by Fibre-to-the-Premises and upcoming spectrum auctions.

#### Thoughts in May

In our "Thoughts about May", it is a little difficult not to comment on the now former UK Prime Minister, Theresa May. However, I think rule number one in Fund Management is that it is better not to pass comment on politics where possible, especially UK politics at present. In any case, most of our investments are outside the UK as we continue to like the US

and even Europe selectively, while we have also added a little to Japan during the month by way of the aforementioned Asahi Group purchase.

Alternatively, maybe the topic of the month should be the old adage "sell in May and go away". Yet this "rule of thumb", perhaps unsurprisingly, is unreliable and only tends to work around 50% of the time. In fact, we currently remain relatively positive about staying invested, despite many uncertainties around Central Bank policy, global trade disputes, Brexit and UK politics, to name but a few. Ultimately, valuations of risk assets still appear supportive.

So, how best to think about May? We believe it best reflects the inherent uncertainty in investing. Very seldom does one have clarity; crystal balls are hazy at best. If one thinks about the unresolved issues mentioned above we are only faced with conundrums; the US and China may sign a trade deal to avoid tariff increases, or they may not; Brexit may happen with no deal, it may be delayed further, or it may not happen at all; the UK may have another General Election before the year's out, or perhaps a second EU referendum; and the Bank of England may raise interest rates, they may cut, or perhaps they'll remain unchanged. You get the picture...

To navigate these challenges requires a clear, coherent and joined up approach. We feel it is useful to have a systematic investment process to remain well anchored in uncertain times; our quantitative equity valuation framework, macro risk-monitoring, quarterly results analysis and momentum discipline are all part of that process. These are good to have, however when I look back over 20 years as a Fund Manager, and think of the successful investors I have worked with, the common denominator for all of them has been a solid grounding in common sense. No hype, no thrills, no panicking. Just cool common sense. Combine the above and one may have a chance.

## Close Portfolio Funds discrete performance as at 31 May 2019

	YTD	2018	2017	2016	2015	2014
<b>Close Conservative Portfolio Fund</b>	<b>6.5%</b>	<b>-2.7%</b>	<b>9.0%</b>	<b>5.4%</b>	<b>2.0%</b>	<b>6.5%</b>
IA 20-60	5.8%	-5.1%	7.2%	10.3%	1.2%	4.9%
<b>Close Balanced Portfolio Fund</b>	<b>8.7%</b>	<b>-2.9%</b>	<b>11.8%</b>	<b>6.4%</b>	<b>2.9%</b>	<b>7.3%</b>
IA 40-85	7.8%	-6.1%	10.0%	12.9%	2.7%	4.9%
<b>Close Growth Portfolio Fund</b>	<b>10.6%</b>	<b>-3.4%</b>	<b>12.5%</b>	<b>6.8%</b>	<b>2.9%</b>	<b>7.7%</b>
IA Flexible Investment	7.3%	-6.7%	11.2%	13.8%	2.0%	4.9%

Source: FE Analytics as at 31.05.2019; all are X Acc share classes; performance is total returns, net of fees with dividends reinvested.

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