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Riitta Hujanen
Managing Director

Close Portfolio Funds

Monthly fund manager update

July 2019

Review

The Close Portfolio Funds delivered strong positive returns in what was another buoyant month for global equity markets. The Conservative Fund gained 2.21%, Balanced 2.97% and Growth 3.74%. All three funds remain ahead of their respective IA sectors year to date: Conservative at +0.71%, Balanced +0.74% and Growth +4.81%.

Thoughts in July

Following very strong equity market performance year to date, we have made the decision to reduce our equity weightings across the funds. This was implemented gradually over the course of the month, with the weighting in the Conservative Fund falling from 47% to 41%, the Balanced Fund from 66% to 60%, and the Growth Fund from 84% to 80%.

Two independent factors contributed notably to our arriving at this decision. Firstly, both Croda and Spirax-Sarco reached their target prices. We had already been reducing these holdings as mentioned in previous monthly updates and, as we saw no further upside, the remaining sales were completed as planned in July.

Secondly, and something which we had not expected, was the re-emergence of threats from the Trump administration in the US regarding the pricing practices of drug-makers. This has led us to take the view that pharmaceutical sector-specific risks have materially elevated and that the risk return profile is now somewhat less attractive. We therefore decided to reduce our sector exposure by exiting positions in Roche, Johnson & Johnson and Celgene where we had gains to protect.

The Croda & Spirax-Sarco sales were planned and carried out over a period of time; they were also smaller in scale. In the higher risk funds (Balanced and Growth) the proceeds of these sales were reinvested into existing holdings where we still see good upside and did not have a full size position. The sale of some of our pharmaceutical stocks was a reaction to a sector-specific issue and raised a greater cash sum. Our initial assessment was to hold back on the reinvestment of this cash for three reasons; (1) We are currently in the middle of earnings season which creates uncertainties but can also present new opportunities; (2) The market rally this year has seen a number of indices reach new all-time highs, leaving equity market valuations extended and in need of strong earnings growth and/or supportive rate cuts; (3) There were some near-term risks associated with the US Federal Reserve interest rate decision at the end of July, with the concern being that the commentary after the expected 25bp cut might disappoint if it did not firmly enough commit to the prospect of further monetary loosening. This risk did indeed materialise to some extent.

Current positioning and outlook

Shortly after the US rate decision, President Trump again threatened to further escalate the on-going trade dispute with China, this time suggesting he will slap a new 10% tariff on practically all products imported to the US from China. China allowed its currency to depreciate in retaliation.

Due in part to these added trade war risks, we also took the decision to reduce our allocation to Emerging

Close Brothers
Asset Management

Markets by reducing our holdings in the funds' Emerging Market ETFs. Therefore, for reasons both anticipated and unforeseen, the upshot was that we arrived at a relatively cautious positioning in the funds at the end of the month, just as the first few volatile days of August unfolded. We are currently happy to 'wait and see' for a while before increasing our equity exposures again. The cash raised from equities has currently been parked in short duration bonds, while we also added to our silver ETFs within the Alternatives space. For the time being, we are comfortable with having some "dry powder" to use when the right opportunities emerge.

To quote from the Fed statement following their rate decision on 31 July: "Uncertainties on outlook remain, we will act as appropriate". We couldn't agree more

Stock of the month: The London Stock Exchange Group

- The London Stock Exchange (LSE) Group is a global financial markets infrastructure business.
- The share price increased +21% in July and has risen 47% since purchase (06/07/2018).
- In July, LSE announced it is in talks to acquire financial data provider Refinitiv, with the deal anticipated to be transformative for LSE, more than doubling its size.
- The deal allows LSE to expand into foreign exchange and fixed-interest trading platforms, complementing its strength in equities and derivatives. The acquisition will also accelerate LSE's growth in data.
- Management has forecasted a 5-7% compounded top-line growth rate for the combined entity and 30% earnings per share accretion in the first year post-completion. The equity market therefore took this positively.

Close Portfolio Funds discrete performance as at 31 July 2019

	YTD	2018	2017	2016	2015	2014
Close Conservative Portfolio Fund	10.9%	-2.7%	9.0%	5.4%	2.0%	6.5%
IA 20-60	10.2%	-5.1%	7.2%	10.3%	1.2%	4.9%
Close Balanced Portfolio Fund	15.0%	-2.9%	11.8%	6.4%	2.9%	7.3%
IA 40-85	14.2%	-6.1%	10.0%	12.9%	2.7%	4.9%
Close Growth Portfolio Fund	18.8%	-3.4%	12.5%	6.8%	2.9%	7.7%
IA Flexible Investment	14.0%	-6.7%	11.2%	13.8%	2.0%	4.9%

Source: FE Analytics as at 02.08.2019; all are X Acc share classes; performance is total returns, net of fees with dividends reinvested.