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# Close Portfolio Funds

## Monthly fund manager update

August 2019

### Review

The Close Portfolio Funds delivered positive returns in what was a more challenging month for global equity markets. The Conservative Fund gained 0.55%, Balanced 0.52% and Growth 0.99%. This compares favourably with the funds' respective IA Sectors, all of which were in negative territory for the month. All three funds also remain ahead of their IA sectors year to date: Conservative at +2.38%, Balanced +3.44% and Growth +8.28%.

### Thoughts in August

It is very pleasing to deliver a positive return across all three funds against a negative market backdrop. On that note, the funds also enjoy good 1, 3 and 5 year performance, both in absolute and relative returns. However, this is past performance which, as we know, is no indication of future returns.

So what are we doing about future returns? Two new investment ideas were initiated in the past month, in preparation for a potentially eventful autumn market.

#### 1. Special Situations Basket

We wanted to introduce a new, small element to the funds which would potentially allow them to benefit from individual positive events impacting companies' share prices, regardless of overall market trends. Typically, for example, in the event of corporate takeover, the acquirer may be willing to pay a 10-30% premium to the market price to gain control of a company. To implement this idea, we identified and researched various potential special situations companies, and selected the twenty strongest candidates for a dedicated Special Situations

Basket. It will remain a small feature within the overall equity allocation of the funds, but we have high expectations that it will add a positive twist to our future performance.

The concept is that this basket of companies effectively constitutes a fund within the fund, providing diversified sources of returns from different special situations globally. We intend to have approximately 20 holdings in total, each with a small position size, ranging from 15-25bps. The maximum overall allocation to this Special Situation Basket will be 3% in the Conservative Fund, 4% in Balanced and 5% in the Growth, while the minimum market capitalisation for any special situations company we hold will be £1bn.

#### 2. Platinum

Geo-political and Central Bank rate policy uncertainties have led to strong returns in precious metals. We started to add holdings in gold in November last year, which served us well during the difficult final quarter. We have gradually diversified by adding silver, which has contributed particularly well recently. As the next step, we have now added a small holding in platinum (financed by reducing the gold position). As with the gold and silver positions, this exposure has been obtained through an ETF which provides us with adequate liquidity. Precious metals in the funds act as a safe haven and provide genuine diversification benefits. They are genuinely alternative investments as they tend to perform independently and quite differently from our core asset classes of equities and fixed income.

With these new positions we are acknowledging that the autumn markets can be unpredictable and sometimes volatile, but we are confident that the preparations we have made allow us to look calmly into the future.

## Stock of the month: Kirkland Lake Gold

- Kirkland Lake Gold is a Canadian gold miner with attractive geographical exposure, operating five mines across Canada and Australia only.
- Risen +19% in August and 17% since purchase (21/06/2019).

- The company's Fosterville mine is one of the highest-grade gold mines in the world. This means there is a high concentration of gold per tonne of ore, making its mining operations low cost and therefore highly profitable.
- The stock has mainly been driven by the gold spot price, which increased by 8% in August due to interest rates declining and trade war tensions escalating.
- Kirkland Lake is also likely to be benefiting from M&A speculation, with Chinese firms in particular being active in the mining space.

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

	YTD	2018	2017	2016	2015	2014
Close Conservative Portfolio Fund	11.6%	-2.7%	9.0%	5.4%	2.0%	6.5%
IA 20-60	9.2%	-5.1%	7.2%	10.3%	1.2%	4.9%
Close Balanced Portfolio Fund	15.6%	-2.9%	11.8%	6.4%	2.9%	7.3%
IA 40-85	12.1%	-6.1%	10.0%	12.9%	2.7%	4.9%
Close Growth Portfolio Fund	20.0%	-3.4%	12.5%	6.8%	2.9%	7.7%
IA Flexible Investment	11.7%	-6.7%	11.2%	13.8%	2.0%	4.9%

Source: FE Analytics as at 03.09.2019; all are X Acc share classes; performance is total returns, net of fees with dividends reinvested.

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