

# Close Diversified Income Portfolio Fund

## Monthly fund manager update

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### PERFORMANCE

The Close Diversified Income Portfolio Fund rose +0.3% over October, compared with -0.7% for the IA Mixed Investment 20-60% shares sector. This takes the year-to-date return for the fund to +6.8%.

### MARKET ROUNDUP

The two main global economic concerns rumble on:

- **The US/China trade war:** the month saw both ups and downs as a Phase 1 deal was reportedly agreed, but then failed to materialise. However, the planned tariff increases in October were still cancelled. Europe, on the other hand, was not so fortunate as the US imposed tariffs following news that the World Trade Organisation had sided with the US on the illegality of the EU's state aid to Airbus.
- **Brexit:** the EU and UK finally agreed on a Brexit deal, which helped sterling appreciate +5% against the US dollar, and +2.9% against the Euro. However, Boris Johnson could not get enough support to fast track it through in time for the 31<sup>st</sup> October deadline, so once again the Brexit deadline was extended, this time to 31<sup>st</sup> January 2020. Boris has called an early election to try and break the deadlock in Parliament. As campaigning begins, the UK Q3 GDP number, due on the 11<sup>th</sup> November, could prove important. A negative reading would put the UK into a technical recession, causing a potential headwind for the incumbent government.

Elsewhere, the Fed cut rates by 0.25%, but signalled a pause in further cuts unless the economic outlook changes materially. They also re-started an effective form of quantitative easing (although insisted that these bond purchases did not actually count as QE).

The ECB left interest rates on hold in Mario Draghi's last meeting. However, German factory orders fell -6.7% year-on-year in August. The Q3 GDP number, due on the 14<sup>th</sup> November, will be another important data point as Germany may also slip into recession.

Hong Kong went into recession after announcing Q3 GDP growth of -3.2% (significantly lower than analysts had forecast). Official Chinese October Manufacturing PMI

dropped from 49.8 to 49.3, whilst the China Caixin Manufacturing PMI rose from 51.4 to 51.7.

The IMF has cut its 2019 global growth forecast from 3.2% to 3.0%, stating that "*with a synchronized slowdown and uncertain recovery, the global outlook remains precarious.*"

### EQUITIES

During October, the UK large cap equity market was broadly off -2.2%, with the strong pound hitting international earners. Conversely, UK mid-caps were up +0.4% on hopes of a Brexit breakthrough. International equity markets were generally positive, but down in sterling terms. The US was up +1.7%, but down -3.4% in GBP terms; Europe was up +1%, but down -1.8% in sterling terms.

As the result of a more UK-focused and half currency hedge, relative performance of the fund was strong during the month.

### FIXED INCOME

In the broader fixed income market, the 10-year Gilt yield rose to 0.63% from 0.48%; in particular, longer duration bond values were hit over the month.

BBB corporate spreads fell from 1.89% to 1.78%, so corporate bonds outperformed Gilts.

The fund's short duration corporate bond exposure did relatively well in the month.

Within the portfolio, Burford continued to recover, as Moody's credit rating agency released a research note, stating that Burford has, "*a strong capital position to buffer earnings volatility. By maintaining high cash balances, employing low leverage and effectively laddering debt maturities, Burford also maintains a strong liquidity profile.*" This is a far cry from the, "*arguably insolvent,*" claims of Muddy Waters.

Two bonds successfully matured (GKN 2019 and LSE 2019) and the proceeds were reinvested into existing holdings such as Tesco Personal Finance 2020 (2.1% yield), Paragon 2022 (3.9% yield), BHP Billiton (callable in 2022) at a 2% yield and GKN 2022 with a yield of 2.2%.

## ALTERNATIVES

In the alternatives space, all four of the PFI funds were up. Five of the seven renewables holdings also rose; Foresight Solar fell as it announced a placing of new shares. Seven of the nine REIT holdings also had a positive month.

The laggards were gold, which was down -2.2% on sterling strength, and the property debt funds which were all either flat or down; these failed to rally despite credit spreads falling and REITs rising.

Two new holdings were added to the fund; 3i Infrastructure and Renewables Infrastructure Group were bought in their

placings, giving us the opportunity to get in at a good discount to the 'screen' price. 3i Infrastructure was added at 275p, finishing the month at 287p, while Renewables Infrastructure Group was added at 123p, finishing the month at 131p.

## YIELD AND NAV

The fund's yield was static at 3.7%. This was the result of individually selected *risk:reward* ideas. In this tough environment, we continue our hard work to find attractive *risk:reward* ideas across the whole spectrum of asset classes that the fund is able to invest in.

## CLOSE DIVERSIFIED INCOME PORTFOLIO FUND PERFORMANCE AS AT 31 OCTOBER 2019

|  | YTD         | 2018         | 2017        | 2016        | 2015        | 2014        |
|--|-------------|--------------|-------------|-------------|-------------|-------------|
| <b>Close Diversified Income Portfolio Fund</b> | <b>6.8%</b> | <b>-1.8%</b> | <b>5.4%</b> | <b>7.8%</b> | <b>2.4%</b> | <b>5.0%</b> |
| IA Mixed Investment 20-60% shares              | 9.2%        | -5.1%        | 7.2%        | 10.3%       | 1.2%        | 4.9%        |

### SOURCE:

FE Analytics 04.11.2019. Performance is total return, net income reinvested after fees, X Acc share class.

## IMPORTANT INFORMATION

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