Close Brothers
Asset Management

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Close Portfolio Funds

Monthly fund manager update

NOVEMBER 2019

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MONTH IN REVIEW

The Close Portfolio Funds all delivered positive absolute returns in November. The Conservative Fund gained +0.83%, the Balanced fund +1.19% and the Growth fund +1.54%. Each slightly lagged its respective IA Sector, which returned +1.18%, +1.91% and +1.81% respectively. Nevertheless, all three funds remain significantly ahead of their IA sectors year-to-date; with the relative return of the Conservative fund now standing at +0.89%, the Balanced fund at +1.24%, and the Growth fund at +6.25%.

THOUGHTS IN NOVEMBER

As we approach the end of the year I was posed an interesting question by a client: with all that has happened this year, what are the key things you have learnt about the funds and your investment process?

My answer was that while we cannot control the markets (returns), we can try to control the risks we take to some extent in the context of multi-asset funds. This means we must be prepared to learn continuously as markets evolve, and strive to become better every year. For the investment process it means striking the right balance between being disciplined and systematic, but also agile enough to respond to market changes in a timely manner. Taken to extremes, without the right balance, there is a risk of being overly rigid and unwilling / unable to change anything… or having no process or structure in place and lapsing into a lazy habit of becoming a market follower and acting retrospectively.

Even where a process has worked well in the past, investors need to be open to its gradual evolution and to IMPROVING it over time. If we can improve our investment process, even marginally, we should not shy away from adjustments. However, evolution should not take place without justification and serious consideration, which should be driven by what we believe is in the best interests of clients.

Repeatability and stability in an investment processes are obviously preferable. However, this also needs to be balanced with market regimes. The long cycle of falling interest rates and low inflation globally has provided stability and, therefore, little need for adjustment in investment processes. The test for any investment process comes when regimes change and major market disruptions happen. Investors must then think carefully about whether their process can cope; can it deal with change? This is something I spend a lot of time thinking about, and it is why our process incorporates the “watchtowers” and “drones”, which monitor various data sets and are designed to ensure we are as prepared as possible ahead of any change in market backdrop.

In reality, this year has thus far proven relatively easy. Looking back, 2017 gave positive market returns (which Close Portfolio Funds beat on a relative basis); 2018 was more challenging with generally negative returns (but again the funds outperformed); and 2019 has seen markets turn positive again (with the funds ahead in relative terms). The question we must ask ourselves, however, is can our process deliver outperformance again in 2020, no matter what the market throws at us? We will certainly try. We believe we have made several incremental improvements to our investment tools and research process throughout the year, and look forward to the additional challenges the New Year will no doubt bring.

TRADING ACTIVITY

Trading activity was characterised by two themes. The first was adding cyclicality within equities on the back of the stabilisation of economic data. Greater cyclicality was achieved by purchasing a diverse range of European banks, oil companies Equinor and Total, and miners Anglo American and Rio Tinto. The second theme was increasing domestic UK exposure as election polls appear supportive for markets. As such, we added a new position in Lloyds Banking Group and topped up existing holdings in ITV, TUI and Whitbread. Purchases were partly funded by the reduction of more defensive positions, with the net result being an increase in the equity weighting by approximately 3 percentage points across the funds.

STOCK OF THE MONTH: ADOBE

- Adobe is a market leader in software for the creative industries with ***over a 50% share of the market*** and a high degree of recurring revenues.
- +11% in November & 280% since purchase.
- The company benefits from a large installed user base, which Adobe is transferring from the old perpetual license to the cloud. This allows a ***greater level of up-selling to more advanced features and new products.***
- In November, Adobe had their annual MAX Creativity Conference where they gave solid FY20 earnings guidance, with net new Digital Media annualised recurring revenue of $1.55bn coming in at the top end of

expectations. Creative cloud subscribers could also double over the next 5 years as management noted that broad-based fundamental drivers continued to be strong.

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 30 NOVEMBER 2019

	YTD	2018	2017	2016	2015	2014
Close Conservative Portfolio Fund	**11.4%**	**-2.7%**	**9.0%**	**5.4%**	**2.0%**	**6.5%**
IA 20-60	10.5%	-5.1%	7.2%	10.3%	1.2%	4.9%
Close Balanced Portfolio Fund	**15.3%**	**-2.9%**	**11.8%**	**6.3%**	**2.9%**	**7.3%**
IA 40-85	14.1%	-6.1%	10.0%	12.9%	2.7%	4.9%
Close Growth Portfolio Fund	**19.7%**	**-3.4%**	**12.5%**	**6.8%**	**2.9%**	**7.7%**
IA Flexible Investment	13.5%	-6.7%	11.2%	13.8%	2.0%	4.9%

SOURCE:
FE Analytics 03.12.2019; YTD data as at 30.11.2019; fund performance is total return net of fees with dividends reinvested for X Acc share class.