

Close Diversified Income Portfolio Fund

Monthly fund manager update

NOVEMBER 2019



STEPHEN HAYDE
Managing Director

PERFORMANCE

The Close Diversified Income Portfolio Fund diversified Income rose +1.20% in November. This was in line with the IA 20-60% sector, bringing the year to date return for Diversified Income to +8.10%.

MARKET ROUNDUP

The trade war has rumbled on with little progress made, despite claims to the contrary six weeks ago. Tensions were further exacerbated when President Trump signed the Hong Kong bill backing pro-democracy protesters, requiring annual reviews of Hong Kong's special trade status under American law. The bill allows Washington to suspend said status in case the city does not retain a sufficient degree of autonomy under the "one country, two systems" framework.

Wilbur Ross (U.S. Commerce Secretary) also stated that China has until the 15th December to agree a trade deal or their tariffs will be increased again, while new tariffs have also been placed on Brazil and Argentina.

President Trump continued his criticism of the Fed over the month, this time calling for the central bank to consider cutting rates into negative territory - as the ECB has done in Europe – reactions were mixed.

However, despite the lack of progress on the US/China trade deal, equity markets, especially in the US, were buoyant (helped by a Fed rate cut): UK large caps were up +1.35%, the UK mid-cap index was up +3.95%, US equities were up +3.6% (+3.8% in GBP terms) and Europe was up +2.8% (+1.7% in GBP terms).

In the UK, domestic companies rallied on hopes of a Tory majority (according to recent polls) as well as the UK avoiding recession, with a 3rd Quarter rise in GDP of 0.3%.

Germany also avoided recession with Q3 GDP coming in at +0.1%, ahead of expectations at -0.1%. China's central bank said that the banking sector is showing signs of strain, with more than 13% of 4,379 lenders now considered "high risk". This will come as no surprise to readers, as I have been documenting a number of recent bailouts in that sector.

EQUITIES

We topped up some existing holdings: Pollen Street Secured Lending (at a 4% discount to the screen price), Imperial Brands and Clinigen.

Over the month, the Labour Party announced yet more policies that would likely impact UK listed companies. The equity element of Diversified Income does not own any bus companies, oil and gas companies or BT, which are most likely to be impacted. However, some of the other holdings such as PFI funds will be in their sights for nationalisation should they be elected.

Of greater concern to any UK investor will be Labour's pledge to make every UK listed company give 10% of shares away to staff (an instant 10% earnings and presumably share price hit). All eyes turn to the election on the 12th December.

FIXED INCOME

In bond markets, the 10 year gilt yield rose to 0.7%, due to the risk-on environment. BBB corporate spreads fell to 1.74%, meaning corporate bonds outperformed sovereign bonds.

In the month, a number of existing holdings were added to including; Paragon 2024 (4.04% yield) and Marks & Spencer 2019 (yield 1.2%). Notice was also given that one of our bonds, Unite 2020, will be redeemed early. To do this, Unite has to pay a price that equates to a yield just above that of the Gilt 2020 (in this case, a yield of 1.15%). We were buying the bond in recent months on yields of 2.3-2.9%, so we will make a small capital gain on top of the yield we have already made to date.

ALTERNATIVES

In the Alternatives space four of the five PFI funds were up, most likely on hopes of a Tory election win, though HICL Infrastructure was the laggard as it announced a £100m placing (as ever, this always leads to a short-term sell off as the placing will be done at a discount to the screen price).

Five of the seven renewables funds were up, though once again one fell (Greencoat Renewables) due to the announcement of a Euro100m fund raise, this time at 113 cents (the shares were trading at 121 cents before the announcement). We trimmed this position considerably when it was trading in the 120's.

Gold fell -3.2% in sterling terms (due to the risk-on environment), whilst the REITs and property debt funds put in a mixed performance.

As well as trimming Greencoat Renewables, we also trimmed Greencoat UK Wind, GCP Infrastructure and Bluefield Solar. These holdings were offering expected returns as low as

4.35% p.a. due to strong price action (they were all trading at significant premiums to NAV). The money will be reinvested into ideas with higher expected returns in December.

YIELD AND NAV

Diversified Income's yield fell 0.1% to 3.6%, reflecting the strong NAV growth in the period. The yield on the Fund is the result of all the individually picked attractive risk:reward ideas. In this tough environment the hard work continues 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 30 NOVEMBER 2019

| | YTD | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|--------------|-------------|-------------|-------------|-------------|
| Close Diversified Income Portfolio Fund | 8.1% | -1.8% | 5.4% | 7.8% | 2.4% | 5.0% |
| IA Mixed Investment 20-60% shares | 10.5% | -5.1% | 7.2% | 10.3% | 1.2% | 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.

IMPORTANT INFORMATION

This document is only intended for use by UK investment professionals and should not be distributed to or relied upon by retail clients. The value of investments will go up and down and clients may get back less money than they invested. Past performance is not a reliable indicator of future returns. The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of Close Brothers Group plc, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86. CBAM5423