

# Close Managed Funds

## Monthly fund manager update

DECEMBER 2019

### YEAR IN FOCUS

It was a very strong year for global equity markets, particularly in the US, with investors enjoying healthy double digit returns. YTD performance across the Close Managed Fund range was very strong with Income delivering a return of +10.3%, Conservative +11.2%, Balanced +15.3% and Growth +17.5%. From a relative perspective, the Growth fund comfortably outperformed its peer group and strategic benchmark, whilst the Balanced fund beat its strategic benchmark, but just fell short of the peer group average. Generally, value struggled as a style and short duration fixed interest lagged, so the positioning within both the Income and Conservative funds meant they slightly underperformed their peer group. The key message is that most of our selected fund managers outperformed both their indices and peer groups, but overall we were held back by our relatively defensive positioning.

In sterling terms, the UK returned +16.4%, the US +25.8%, Europe +19.8%, Japan +14.9%, Asia +14.5% and Emerging Markets +13.8%. Within fixed income, gilts returned +7.3% and investment grade corporates returned +11.4%. Gold delivered double digit returns (in sterling terms), meaning every major asset class generated returns.

Investors held the view that central banks would support continued global stock market growth by keeping interest rates lower for longer. This optimism was in spite of four consecutive quarters of negative earnings in the US, the US-China trade dispute, political uncertainty in the UK, and slowing growth in Europe, China, and elsewhere. We maintained a cautious approach in terms of asset allocation – broadly underweight UK, overweight US, and a modest exposure to emerging markets. The funds had a good start to the year, as sterling weakened and both growth stocks and emerging markets performed well. Significant risk-off moments (centred around pessimism for an easing of US-China trade tensions) created some opportunity to add risk, however we remained largely unconvinced by the fundamentals. Having said this, we did take the opportunity to add to UK equities ahead of the December General Election which, following the strong Conservative majority, immediately proved to be accretive in performance terms.

It was a good year for both duration and credit spreads, with both corporate and government bonds delivering strong returns, as the inflation outlook softened. Elsewhere, our infrastructure positions were, on the whole, double digit contributors, especially in the renewables space. Absolute-return style strategies offered little, but this was offset by the strong returns from gold.

As noted, we were able to find managers capable of delivering excellent returns over the period. This was true even where we faced headwinds with the value-focused Chelverton UK Equity Income fund, delivering +24.6% (owned in both the Income and Conservative funds). A number of our overseas managers produced very strong returns including the RWC Continental European fund (+26.1%), Brown Advisory Global Leaders (+29.2%) and RWC Global Emerging Markets (+21.3%). It was not just within equities, however, where we found top performing fund managers. The Nomura Global Dynamic Bond fund returned +15.5%, helping to boost fixed income performance within the Conservative and Balanced funds.

We added to our UK position coming into the last three months of the year as we felt the market was pricing in too much negativity – this was most noticeable in smaller companies and those with domestic earnings. We started new positions in Baillie Gifford UK Equity Alpha (which looks for higher growth companies that tend to be more mid-cap in nature) and Tellworth UK smaller companies. The Tellworth fund is managed by Paul Marriage and John Warren who have a long and successful track record of managing small-cap portfolios at both Cazenove and Schroders. Given increased market volatility, we have been gradually increasing our allocation to alternative assets and in November we added a new position; the Sandbar Global Equity Market Neutral Fund. The fund manager has a strong track record, having previously worked at large hedge funds, and the fund was launched last year when he set up his own business.

**CLOSE MANAGED FUNDS DISCRETE PERFORMANCE AS AT 31 DECEMBER 2019**

|  | <b>YTD</b>   | <b>2018</b>  | <b>2017</b>  | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|--|--------------|--------------|--------------|--------------|-------------|-------------|
| <b>Close Managed Income Fund</b>       | <b>10.3%</b> | <b>-3.7%</b> | <b>6.4%</b>  | <b>9.1%</b>  | <b>4.5%</b> | <b>6.4%</b> |
| IA £ 20-60% Equity                     | 11.8%        | -5.1%        | 7.2%         | 10.3%        | 1.2%        | 4.9%        |
| <b>Close Managed Conservative Fund</b> | <b>11.2%</b> | <b>-4.3%</b> | <b>7.0%</b>  | <b>8.6%</b>  | <b>4.2%</b> | <b>5.7%</b> |
| IA £ 20-60% Equity                     | 11.8%        | -5.1%        | 7.2%         | 10.3%        | 1.2%        | 4.8%        |
| <b>Close Managed Balanced Fund</b>     | <b>15.3%</b> | <b>-5.1%</b> | <b>10.8%</b> | <b>10.4%</b> | <b>4.7%</b> | <b>5.5%</b> |
| IA £ 40-85% Equity                     | 15.8%        | -6.1%        | 10.0%        | 12.9%        | 2.7%        | 4.9%        |
| <b>Close Managed Growth Fund</b>       | <b>17.5%</b> | <b>-6.0%</b> | <b>14.3%</b> | <b>10.3%</b> | <b>6.3%</b> | <b>5.6%</b> |
| IA £ Flexible Investment               | 15.7%        | -6.7%        | 11.2%        | 13.8%        | 2.0%        | 4.9%        |

**SOURCE:**

FE Analytics 06.01.2020. Performance is total return, net income reinvested after fees, 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. CBAM5424