

Close Diversified Income Portfolio Fund

Monthly fund manager update

JANUARY 2020

**STEPHEN HAYDE**
Managing Director

PERFORMANCE

Close Diversified Income Portfolio Fund rose 0.4% in January, compared to 0% for the IA 20-60% sector. This marks my 9th year of running the fund, over this time it has delivered a total return of 61.7% versus 55.0% for the IA 20-60% sector, and remains 1st out of 175 funds in this peer group on a risk-adjusted basis.

MARKET ROUNDUP

The Phase 1 trade deal was finally signed, with China agreeing to buy more US agricultural produce and more energy products - though before the ink was even dry a number of commentators highlighted its flimsiness given China's acquiescence was purportedly reliant on market conditions. President Trump added that his administration would start Phase 2 negotiations as soon as Phase 1 "kicks in". Trump also plans to unveil additional tax cuts in the lead up to the Presidential election in November.

Coronavirus continued to spread and now looks set to disrupt global supply chains and China's economy. As well as a mounting death toll, the business impacts seen so far include:

- Commodity prices weakening: oil down ~15%, and copper down ~10%, with some production facilities put on hold
- Retail and travel taking a hit: Starbucks has shut over 2,000 of its 4,292 stores in China; Apple has shut all stores in China; and visitors to Macau have declined 84%

Despite triggering short-term sell-offs, such viruses historically have not had a lasting impact. Yet we will of course remain vigilant.

Christine Lagarde, the new head of the ECB, announced a review of its price stability mandate – how to define, measure, communicate and implement it. Meanwhile, the IMF downgraded its forecast for global GDP for 2020 and 2021, its sixth straight reduction.

And finally, as the UK left the EU, the post-election period has provoked a rebound in some forward looking UK economic indicators (GFK Consumer Confidence rose to -9 from -11, Services PMI rose to 52.9 from 50, Manufacturing PMI to 49.8 from 47.5 and CBI Business Optimism lifted to +23, versus an expected -20).

EQUITIES

It was a generally weak month for equity returns with UK large cap equities off -3.4%, UK mid-cap equities off -3.4%, EU equities -2.8% (3.3% in GBP terms) & Hong Kong -6.7% in local terms. Only the US managed a positive return in GBP terms (helped by the Federal Reserve's QE4 programme).

In the month, I opportunistically doubled one equity position from a forced seller and locked in a price 17.25% below Net Asset Value (NAV). For four years, this company has generated an average annual return of 8.4%. This acquisition delivered an instant gain of 10%, helping Diversified Income outperform in January.

FIXED INCOME

In bond markets the 10 year gilt yield fell to 0.52% from 0.81% whilst 'BBB' corporate spreads fell to 1.54% from 1.61%; so investment grade bond markets posted very strong returns in January. Interestingly, junk bond spreads actually rose (reflecting the move in equity markets). 'BBB' corporate bond spreads remain well below their historic average of 2.14%. When you add the current 10 year Gilt yield to the 'BBB' spread you barely get to a 2% expected annual return.

In the month we sold the small holding in PHP 2025 convertible for a total return of over 15% since it listed in June 2019. PHP had a strong post-election bounce and the convertible bond was a beneficiary of this, it was sold on a yield of just 0.2%.

One new bond position was added – the Nestle 2020 (AA-rated by S&P) at a yield of 0.85%. This is quite a conservative pick, but offers a pick up to Gilts (the fund has a large Gilt position maturing in March) and again highlights that we are not chasing yield in this period of low prospective returns. 14% of the fund will mature in 2020, adding to the existing 5.8% cash pile.

ALTERNATIVES

Despite it being a weak month for most commodities, our 3% exposure to gold proved positive, returning 4.5%. PFI funds were mostly up, REITs were mixed, and renewable funds down.

In January, I continued to cull Renewable Infrastructure funds after an inexplicable bounce post General Election. This proved timely as less attractive valuations coincided with a bearish Bloomberg research report on UK electricity prices, which led to a large sell-off in the sector at the end of the month.

Virtually all of our Bluefield Solar position was sold at 143.375p, before the shares ended the month at 131p. The Renewables Infrastructure Group position was all but sold at an average price of 133p, locking in a 3 month profit from the 123p placing price on October 19th. Most of the other positions were top-sliced and in total half of the renewables positions was sold in January. We now hold 3% in

Renewable Infrastructure funds compared to a high of 8.3% in June 2019.

We also added to Starwood European Real Estate Finance after a large holder sold out below NAV, anticipating a return of 6.7%.

YIELD AND NAV

The fund's yield remained steady at 3.4%. 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 opportunities across the whole spectrum of our investible asset classes.

CLOSE DIVERSIFIED INCOME PORTFOLIO FUND PERFORMANCE AS AT 31 JANUARY 2020

	YTD	2019	2018	2017	2016	2015
Close Diversified Income Portfolio Fund	0.4%	9.8%	-1.8%	5.4%	7.8%	2.4%
IA Mixed Investment 20-60% shares	0.0%	11.8%	-5.1%	7.2%	10.3%	1.2%

SOURCE:

FE Analytics, 04.02.2020; 2019 (YTD) data as at 31.01.2020. 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. CBAM5423