Close Brothers Asset Management

Close Managed Funds

Monthly fund manager update

FEBRUARY 2020

MANAGED FUNDS TEAM

COVID-19 UPDATE

As the spread of COVID-19 has widened, governments and markets have had to adjust quickly, not only to a fast changing public health challenge, but also the possibility of a deteriorating economic environment. Stock markets around the world have fallen, with many experiencing their biggest daily falls in over 30 years. Within the Close Managed Fund range we have taken a number of measures to protect capital while still maintaining diversification.

We began the year cognisant that markets were at or close to all-time highs. As a result, and following a very strong 2019, we decided to raise cash from our lowest conviction holdings in the first few weeks of the year. Additionally, we trimmed some of our Asian and emerging market holdings in early February. As the situation has unfolded and more data surrounding COVID-19 has become available, we have increased our allocation to physical gold across the portfolios and added to alternative return strategies. Over recent weeks, we have also trimmed our exposure to developed market equities, in the UK, Europe, and the US.

We are confident that the Close Managed Funds remain well diversified, whilst they have, of course, participated in such a notable market wide drawdown, at the time of writing all four funds in the range have demonstrated their defensive qualities and remain ahead of their respective IA sectors year to date (12/03/20). Timing the market is always notoriously difficult (especially when volatility is so elevated), while a functioning market is one that is forward looking; we therefore remain open minded to when we might deploy capital and more fully utilise the funds' risk budgets should we see a recovery in risk sentiment as the days and weeks ahead unfold.

MONTH IN FOCUS

Global equity markets began to take the potential repercussions of the COVID-19 virus more seriously in February and sold off broadly as the month progressed. As noted, we increased our cash levels and added to holdings which should exhibit good defensive characteristics as the month progressed. While February proved to be a negative month for the funds, we were comforted by the relative performance they displayed compared to the respective IA sectors. The best performing holdings over the period were within our alternatives allocation, with gold returning +3.6% and the Neuberger Berman Uncorrelated Strategies fund delivering +3.2%. Pleasingly the Renewables Infrastructure Group also provided a positive contribution and returned +2.9%. Given the rather bleak month, it is heartening that there are areas of the funds exposed to positive returning assets.

THOUGHTS FROM THE TEAM

It is tempting to assume that merely by being well diversified you automatically enhance the risk;return profile, and one just needs to be patient enough to ride out the peaks and troughs of various market cycles. But how long is too long to wait for returns to come through? This has been something that has been dogging the minds of multi-asset investors for some time now, particularly in relation to the 'value' verses 'growth' dynamic, which has seen value stocks underperform growth for a prolonged period of time.

It is important to remember, of course, that this phenomenon is not only observed within individual equities, but also at both an industry and geographic level. Take the US and UK equity markets for example; the return of the US S&P500, (in Sterling terms and ex-dividend) has been +153.7% since the beginning of the 21st century. This appears even more impressive when compared to the return of the leading UK equity market index, which has delivered a return of -5% over the same period (again excluding dividends). This means that the UK market index has delivered investors absolutely no capital return in a little over 20 years. Perhaps it is little wonder that domestic equity participation into market linked savings products has dwindled in that time frame. It is, perhaps, also unsurprising when one observes that the largest UK equity index is dominated by structurally declining or challenged businesses, such as tobacco, oil and gas, mining, pharmaceutical, banking, and retail companies.

We have generally been underweight the UK in our portfolios where income is not a requirement, and this has been a policy which has worked well. There are areas within the UK where it is possible to find growth companies, of course, and that is generally within mid and small cap space. The leading index of UK mid cap companies, for example, has actually outperformed the S&P500 over the last 20 years, delivering just shy of 200% in capital terms (and significantly more if dividends were reinvested). This is an area of the market that we have a bias to within the Close Managed Fund range, and is arguably a better proxy for the UK economy as a whole. Being diversified is not simply about being well-spread, but also about being intelligently positioned; as the evidence of the past 20 years suggests, selecting the wrong area of the wrong markets can seriously damage returns.

CLOSE MANAGED FUNDS DISCRETE PERFORMANCE AS AT 29 FEBRUARY 2020

	YTD	2019	2018	2017	2016	2015
Close Managed Income Fund	**-3.3%**	**10.3%**	**-3.7%**	**6.4%**	**9.1%**	**4.5%**
IA £ 20-60% Equity	-3.2%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Managed Conservative Fund	**-2.6%**	**11.2%**	**-4.3%**	**7.0%**	**8.6%**	**4.2%**
IA £ 20-60% Equity	-3.2%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Managed Balanced Fund	**-3.4%**	**15.3%**	**-5.1%**	**10.8%**	**10.4%**	**4.7%**
IA £ 40-85% Equity	-4.9%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Managed Growth Fund	**-3.9%**	**17.5%**	**-6.0%**	**14.3%**	**10.3%**	**6.3%**
IA £ Flexible Investment	-5.1%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:

FE Analytics as at 04.03.2020, data as at 29.02.20. Performance is total return, net income reinvested after fees, X Acc share class.