

Close Diversified Income Portfolio Fund

Monthly fund manager update

FEBRUARY 2020

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PERFORMANCE

Close Diversified Income fell -2.5% in February, which compared favourably to a -3.2% for the IA 20-60% sector. The IA sector had a further leg down on the 1st trading day of March, as all the multi-manager funds report their NAVs with a 1 day lag and the last day of February was brutal for markets.

Diversified Income is down just -3.2% from its recent highs, compared with a -5.2% drop for the IA sector over the same period.

MARKET ROUNDUP

February was dominated by coronavirus (or COVID-19) headlines, with some commentators already claiming that the outbreak makes the freshly signed US/China trade deal obsolete, as China will not be able to ramp up their agreed US purchases.

The Coronavirus, which began in China, is now in over 60 countries to varying degrees. Aside from the obvious health implications, the markets became more concerned with the second order effects to the wider economy, leading to a sharp sell-off in risk assets in the final week of February.

Key issues concerning investors have included:

- Companies amending profit guidance for 2020 on the back of lower demand, cancellations or supply chain disruption.
- Weakening economic data (Chinese, Japanese and South Korean Manufacturing PMIs falling well into contractionary territory, and Chinese car sales -92% in the first 2 weeks of February)
- The potential impact on this year's US election should the virus establish itself in America.
- Bond and equity issues being postponed.

Professor Chris Whitty, the Chief Medical Officer for England, said the UK should prepare to face disruption to many normal activities "for quite a long period," and to pay a potentially heavy "social cost" for efforts to thwart the virus. In the extreme, the UK government has not ruled out putting whole cities on lock-down as seen in China.

EQUITIES

It was a very weak month for equity returns, though sterling's weakness (on renewed hard Brexit concerns) took the edge off some of the international falls. UK large cap equities fell -9.7% and UK mid-cap equities were off -8.6%, while US equities fell -9.6% (-7.3% in sterling terms), EU equities were down -8.6% (-6.7% in sterling terms) and the Japanese market fell -8.9% (-6.8% in sterling terms).

Current headlines suggest central bankers and politicians will lend support wherever possible in an effort to prop up markets and ride out the storm. Interest rate cuts, increased government spending, tax cuts, government fee breaks and reintroduction of QE are all being touted as potential levers to pull. Perhaps most radically, Hong Kong is set to introduce so called helicopter money, giving every permanent resident over the age of 18 a cash handout of HK\$10,000 (around £1,000).

Within the fund, the position in Pollen Street Secured Lending was sold, after a bid approach sent the shares up 7%. The proceeds were reinvested into Honeycomb Investment Trust, which is a similar vehicle run by the same team but is currently cheaper, thereby offering a potentially higher expected return.

FIXED INCOME

In bond markets, the 10 year gilt yield fell to 0.44% from 0.52%, whilst BBB corporate spreads rose to 1.73% from 1.54% in sympathy with the risk sell-off. BBB corporate bond spreads still remain below the historic average of 2.14%. Junk bond (BB) spreads also rose over the course of the month from 2.92% to 3.29%.

Within the fund, the Nestle 2020 position (0.8% yield) was added to, whilst two small positions were initiated: a 2020 bond yielding 1.6% and a 2022 bond yielding 1.8%. At the time of writing, these positions are still being bought so will remain nameless for now.

A notable 14.1% of the fund will mature in 2020, which combined with the existing cash level of 6%, means the fund has c. 20% in cash and near cash investments. This should protect the NAV in any prolonged market downturn, and also provide dry powder should opportunities arise.

ALTERNATIVES

Alternatives were not immune to the panic sell-off in risk-assets. Despite the falling gilt yield the Private Finance Initiative (PFI) funds all sold off; property debt funds and REITS also fell. Even gold was down over the month in USD terms (although it was up in sterling terms). The renewables sector was the only sector to see some positive price performance. At the time of writing the Alternatives are putting in a much more robust performance during continued market volatility in early March.

Most of the Octopus Renewables position was sold during the month, banking a 9% profit. Unfortunately the REIT IPO I was planning on participating in has been postponed, as the

rocky market conditions saw a number of orders pulled, though a small top up of the AEW REIT position was undertaken in their placing.

YIELD AND NAV

The Diversified Income fund's yield ticked up to 3.5%, as a result of the falling NAV. 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 29 FEBRUARY 2020

	YTD	2019	2018	2017	2016	2015
Close Diversified Income Portfolio Fund	-2.1%	9.8%	-1.8%	5.4%	7.8%	2.4%
IA Mixed Investment 20-60% shares	-3.2%	11.8%	-5.1%	7.2%	10.3%	1.2%

SOURCE:

FE Analytics, 04.03.2020; 2019 (YTD) data as at 29.02.2020. Performance is total return, net income reinvested after fees, X Acc share class.

IMPORTANT INFORMATION

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