Close Brothers
Asset Management

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Close Tactical Select Passive Funds

Monthly fund manager update

MARCH 2020

WEIXU YAN
Investment Manager

MONTH IN REVIEW

2020 has been a truly challenging year. In the UK, we've had several major storms, including Ciara and Dennis which caused floods and deaths in February. Now we are confronted with Covid-19 and governments worldwide enacting restrictive measures in a bid to limit its spread. While the economic impact of the storms was localised and regional, the effects of Covid-19 are truly global.

A combination of contagion fears and – initially at least – a perceived lack of a unified international response resulted in a major market sell-off worldwide. The sell-off was indiscriminate and, at points, saw equities, bonds, alternatives, sterling and even gold come under pressure. The Close Tactical Select Passive (TSP) fund range was not immune. Aside from our Conservative strategy, the funds have underperformed their Investment Association peer group averages year-to-date. However, we ought to emphasise that this is to be expected as the IA peer groups comprise mostly active investment managers who ought to outperform falling markets.

Similar to February, no equity investments were positive in March, with the iShares Nasdaq 100 ETF down the least at -1.7%. The LGIM Cyber Security ETF we bought across the range in late February also similar at -1.8%. In the UK, mid-cap equity fared worst with the Vanguard FTSE 250 ETF down -22.1%.

Within fixed income investments, only government bonds were positive, while corporate bonds trended down with the markets. Longer duration bonds outperformed shorter duration in Gilts, but the opposite was true within corporate bonds. Thus the best performing investment within fixed income was the Lyxor FTSE Actuaries UK Gilts ETF at +1.2%.

Like equities, alternative assets were volatile with only gold delivering a positive return of circa +4.3%. Gold greatly outperformed a broad basket of commodities, which were down by over -12.4%. The iShares Global Infrastructure ETF was down over -8.1%, and the iShares UK Property ETF -18.5%. Absolute return funds also struggled with the JPM Managed Futures ETF losing -6.1%.

In such panicked markets, there were few places to hide in absolute terms. However, the LGIM Cyber Security ETF already mentioned and the SPDR S&P500 Low Volatility ETF both fared relatively well against the market. They lost -1.8% and -8.4% respectively when the S&P500 lost -10.2%. Both are relatively new holdings which we believe will play vital roles in the TSP fund range.

GENERAL POSITIONING

In March, we moved our equity position to underweight from neutral while increasing our cash allocation, as we think the current market sell-off will provide a good buying opportunity when cases of COVID-19 stabilise and lockdowns can be lifted. We are still overweight alternatives and underweight fixed income.

Within fixed income, we continue to prefer corporate bonds over government bonds and short duration to long duration. Within alternatives we continue to overweight commodities, primarily gold, while staying underweight property/REIT investments.

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CLOSE TACTICAL SELECT PASSIVE FUNDS DISCRETE PERFORMANCE AS AT 31 MARCH 2020

	YTD	2019	2018	2017	2016	2015
Close TSP Conservative Fund	**-12.1%**	**12.1%**	**-4.2%**	**6.5%**	**14.3%**	**1.9%**
IA £ 20-60% Equity	-12.9%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close TSP Balanced Fund	**-15.9%**	**15.3%**	**-5.3%**	**9.1%**	**17.6%**	**2.5%**
IA £ 40-85% Equity	-15.4%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close TSP Growth Fund	**-18.3%**	**17.7%**	**-5.5%**	**11.8%**	**16.4%**	**1.8%**
IA £ Flexible Investment	-15.5%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:

FE Analytics as at 03.04.2020; YTD figures as at 31.03.2020; all are X Acc share classes; performance is total returns, net of fees with dividends reinvested.

IMPORTANT INFORMATION

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