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Close Portfolio Funds

Monthly fund manager update

APRIL 2020

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MONTH IN REVIEW

After the severe falls in March, markets rebounded in April. COVID-19 continued to spread globally, and government enforced lockdowns remained in place across much of the world, but some countries saw daily new infection rates start to fall. A number of governments are now tentatively planning to gradually ease restrictions on movement and re-open their economies.

As a result, the Close Portfolio Funds recovered some of the losses experienced in February and March. The Conservative Fund returned 4.3%, the Balanced fund was up 6.0% and the Growth fund returned 7.1%. This compares with the relevant IA Sectors for the month, which returned 5.7%, 7.3% and 7.3% respectively. The funds remain ahead of or broadly in line with their respective IA Sectors year-to-date (YTD).

OUR RESPONSE TO COVID-19

As we have noted on many occasions, we labelled 2020 the "year of patience" at the start of the year. It is certainly true that it has tried our patience so far – and we are not even half way through the year just yet! However, it is said that when one persists in difficult situations something good often comes about as a result. So, here we are, persisting and working towards something better. As a re-cap, the action we have taken in response to the pandemic and market volatility has been as follows.

We were quick to sell all of our travel related stocks as the outbreak began to spread. These were among our smaller holdings, but even so, it seemed clear that such companies would have significantly difficult times ahead and the investment case collapsed.

Next, we observed that, unlike during the Global Financial Crisis, central banks were very quick to react to the alarming liquidity and systemic risks developing. They cut interest rates, re-started Quantitative Easing (QE), and introduced new stimulus measures to support companies and economies.

To quantify these measures, we created new research tools to understand how they compared to the delayed and staggered action taken during the Global Financial Crisis. The result of our study was that more than twice as much central bank and government money was being put to work globally on this occasion. Furthermore, the actions taken were also swift and targeted, and therefore more likely to provide immediate support to economies where it was most needed.

Understanding this helped us to remain patient during the worst days of February and March, when panic was sweeping through markets. Ultimately, the coordinated actions of central banks and governments helped to stabilise the global economy, and markets staged a strong rebound from late March through late April. As a result, we were comfortable enough to selectively add to some of our existing holdings such as **Amdocs**, a US software provider and integrator for the telecoms industry. We also added to a **Platinum ETF** as we saw some mispriced opportunities. In early April, we bought starter positions in **Cerner**, a large US healthcare IT vendor which develops, installs, and supports software - primarily for hospitals and physician markets globally.

As ever, we continuously review all of the funds' existing holdings to make sure the portfolios are optimally positioned in ever evolving market conditions. Overall, we have been pleased with how our holdings have performed during this difficult period; our exposure to US large cap technology stocks has been especially beneficial, as the likes of **Microsoft,** have returned 10% YTD, despite the significant falls witnessed in the wider market.

Given that mid- and small-cap companies are likely to be more vulnerable to the current challenging economic conditions; we took the decision to sell our holding in **FTSE 250 ETF** across the funds. We prefer direct investment whenever possible in any case, and believe there will be better opportunities for stock-picking in the coming months.

ACTIVITY IN APRIL

A further new tool we developed, to help us make sense of what the markets were reflecting as the virus outbreak took hold, was our Daily Coronavirus Monitor. This illustrated some early positive trends and helped us to remain patient and invested when the markets bottomed out in late March.

However, following the impressive and fast recover y in equity markets, we started to observe that our long-established Quantitative Valuation tool was beginning to indicate that things may have moved too far too soon. Several of our holdings reached their target prices – partly because companies started to give guidance about weaker times ahead – and we can see earnings forecasts being cut for this year and the following year too.

As the market rebound continued in April, we started to sell those holdings which reached their target prices. The biggest one of these was US financial services technology provider **Fiserv.** Several smaller holdings in our Special Situations basket such as **Post Holdings**, **IAC Interactive** and **Exor** were also sold. This is of course part of our usual portfolio management discipline, and not explicitly part of our response to the current backdrop.

Towards the end of April, as weaker economic data and mixed earnings reports started to pour in and as equity markets still continued to rise, we took the decision to further reduce some of the riskier holdings. We meaningfully cut our holdings in **Lloyds Bank** and entirely sold out of the small position we had in Norwegian oil company **Equinor**, leaving us with only one small holding (c. 0.25%) in the oil sector, namely the French integrated major **Total** – reflecting our cautious view on oil demand.

WHAT WE PLAN TO DO NEXT

This recent activity has left the funds with relatively high cash positions and slightly underweight equities. This seems prudent and sensible under the current circumstances, as we now have some dry powder for buying opportunities as and when they present themselves.

In the meantime, we are working on our third new tool, which is unofficially called “Back to Work Monitor”. The idea is to track data from Asian economies, which had to deal with the virus outbreak ahead of Europe and the US. The lockdowns imposed in the East and are now slowly being lifted, and increasing numbers of people are returning to work and some semblance of normality. We hope that monitoring what takes place as this plays out will give us some further guidance as to how we might navigate through these unprecedented medical, financial and market challenges. This kind of monitor is not ‘readily available’, but we are happy to construct it as we believe it will add value to our clients by allowing us to make better informed decisions.

As always, we are doing our best to fathom the best way forward – and let’s stay patient!

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 30 APRIL 2020

	YTD	2019	2018	2017	2016	2015
Close Conservative Portfolio Fund	**-6.5%**	**12.5%**	**-2.7%**	**9.0%**	**5.4%**	**2.0%**
IA 20-60	-7.9%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Balanced Portfolio Fund	**-9.3%**	**17.1%**	**-2.9%**	**11.8%**	**6.3%**	**2.9%**
IA 40-85	-9.2%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Growth Portfolio Fund	**-9.2%**	**21.9%**	**-3.4%**	**12.5%**	**6.8%**	**2.9%**
IA Flexible Investment	-9.4%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:
FE Analytics 03.05.2020; 2020 (YTD) data as at 30.04.2020; fund performance is total return net of fees with dividends reinvested for X Acc share class.