Close Brothers Asset Management

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Close Portfolio Funds

Monthly fund manager update

MAY 2020

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MONTH IN REVIEW

Markets continued to rebound in May following a positive move in April. Government enforced COVID-19 'lockdowns' have been gradually relaxed as countries begin to re-open their economies.

As a result, the Close Portfolio Funds continued to recover some of the losses experienced in February and March. The Conservative Fund returned +2.5%, the Balanced Fund was up +3.2% and the Growth Fund returned +4.0%. This compares with the relevant IA Sectors for the month, which returned 2.8%, 3.7% and 3.8% respectively.

THE YEAR OF PATIENCE

Firstly, we do hope all of our clients and regular readers of this update are keeping well as these unprecedented times continue. I am pleased to report that the Close Portfolio Funds team have been successfully working from home for many weeks now and have adapted quickly to the challenges faced – as have all our colleagues in the wider asset management business. The major positive is that we save plenty of time not having to negotiate the daily commute to and from the office, while the powers of modern technology mean we have still been able to communicate well as a team and manage the transition to this 'new normal' pretty seamlessly.

As we have in many previous monthly updates this year, we would once again refer readers to the "Year of Patience" theme which we first mentioned in January. As a reminder, the three elements of our forecast outlook were: it is likely that volatility and market turbulence will be experienced in 2020; patience will be required to stay on course; and, despite expected volatility, it should be possible to generate positive total returns for the year as a whole. The first two items have certainly been 'ticked off', but the third element of our forecast has yet to come to fruition. Obviously, we are still less than halfway through the year, so the important question is whether or not we still hold this view. And the answer is a firm 'yes'.

This might come as a bit of a surprise as the reasons for caution are numerous: mass unemployment on the horizon, companies reducing earnings expectations or removing forward guidance, a global recession looming, China-US trade risk, protests and riots in the US and elsewhere, fears of a second wave of the COVID-19 virus, no-deal Brexit risk – we could go on but you get the picture. On the face of it there seems little reason for optimism. So why do we believe that the rest of the year could be better and ultimately positive for investors? The simple answer is because of the extensive research work we have been doing in the background. We have touched on what we have been doing in previous monthly updates, but in terms of the output, this work has indicated three key points in our opinion:

1. The worst of the medical scare is over. Even if there are new outbreaks or second waves, at very least we have greater knowledge of the virus we are dealing with and how to prepare and engage again, if we must.

2. Systemic financial liquidity risk has been averted thanks to the impressively swift, significant, and coordinated action of Central Banks and governments globally. When I first started as Fund Manager in 1999, I asked a senior well-respected colleague what would be the most important advice that he could pass on. He said simply: "Don't fight the FED". That advice has proven particularly helpful over the years, as it is now.

3. The various "Back to Work" monitoring tools the team created to gain an understanding of the pattern exhibited by various economies around the world (particularly those in Asia that were first to experience and deal with the virus outbreak) as they come out of 'lockdown'. This data analysis is ongoing and is not yet conclusive, but it does show some signs of a bottoming out growth returning. This is not a huge rebound yet and the recovery could well take a little longer to materialise that one might have hoped. Further patience is indeed required.

FUND PERFORMANCE

The most important positive is that that Central Banks have already provided trillions of dollars in stimulus packages with more announced almost weekly. We estimate that the current Quantitative Easing (QE) measures amount to nearly three times as much stimulus as during Global Financial Crisis in 2008-09.

It is this "whatever it takes" attitude which we believe has been most significant in bringing about a renewed confidence in the markets. At a stock selection level, in addition to our very defensive UK Gilt and gold holdings, the following equity holdings show positive returns this year: stock exchanges, London Stock Exchange and Deutsche Boerse; miner, Rio Tinto; insurer, Admiral; German residential property companies, Vonovia and LEG Immobilien; payment company, Visa; cybersecurity firm, Checkpoint Software; tech giants Microsoft, Adobe and Google; industrial gases company, Air Products; and animal pharmaceutical company, Zoetis.

As a result of this diversified mix of solid performing stocks, and despite the difficult market conditions and volatility year to date, our Funds have remained pretty resilient, with overall losses limited to between c. -3% and -5%. In the light of this, and taking into account the improving outlook for the rest of the year as well as valuations which are not yet excessive, it is not unrealistic to expect or hope that the Close Portfolio Funds can end the year with positive returns. Of course, there is still some way to go. But at the moment, we are comfortable maintaining our cautiously optimistic initial prediction for 2020.

Finally, the team wishes to thank everyone for the many encouraging messages we have been receiving over recent months in particular. It is pleasing to know that you have generally been positively surprised with the resilience of the Funds' performance amid these difficult market conditions. Rest assured that our determination to continue doing our utmost to look after your hard-earned wealth remains undiminished. Wishing you all the best – stay safe.

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 31 MAY 2020

	YTD	2019	2018	2017	2016	2015
Close Conservative Portfolio Fund	**-4.2%**	**12.5%**	**-2.7%**	**9.0%**	**5.4%**	**2.0%**
IA 20-60	-5.4%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Balanced Portfolio Fund	**-6.3%**	**17.1%**	**-2.9%**	**11.8%**	**6.3%**	**2.9%**
IA 40-85	-5.9%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Growth Portfolio Fund	**-5.6%**	**21.9%**	**-3.4%**	**12.5%**	**6.8%**	**2.9%**
IA Flexible Investment	-5.9%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:
FE Analytics 03.06.2020; 2020 (YTD) data as at 31.05.2020; fund performance is total return net of fees with dividends reinvested for X Acc share class.