

Close Portfolio Funds

Monthly fund manager update

JUNE 2020



RIITTA HUJANEN
Managing Director

MONTH IN REVIEW

The Close Portfolio Funds all posted positive returns in June. The Conservative fund returned +1.4%, the Balanced fund was up +1.7% and the Growth fund returned +2%. This was broadly in line with their relevant IA Sectors, which returned +1.4%, +1.7% and 2.0% respectively.

MACROECONOMICS

As mentioned in previous monthly updates, the team have spent a great deal of time and effort working on real-time research into everything Covid-19 related since March. The three new analytical tools developed – one for monitoring daily Covid-19 cases and fatalities, a second for tracking central bank stimulus measures, and a third for monitoring “back to work” indicators – have pleasingly all proven very helpful in navigating a path through the crisis.

Now, however, we feel it is important to refocus attention on our standard macroeconomic analytical framework. While we remain very wary of mean-reverting notions such as “history repeats itself” or “long-term average multiples”, it is nevertheless useful to refer to systematic research approaches as the most acute ‘crisis-driven’ period of the pandemic passes. The notion that we will quickly “return to normality” is likely to be another concept that turns out to be deceiving; however humans are adaptable, evolutionary creatures, and life does have a habit of ultimately displaying an inherently positive “onwards and upwards” character and attitude.

So what is our longer-term traditional macroeconomic framework telling us at this juncture? Very broadly speaking, it is telling us that financial indicators are pointing to a mostly positive outlook, while the economic indicators are painting a relatively negative picture.

More specifically, the key positives outside of the broad financial indicators include: equity valuations (important and forward-looking), and China (very important as the world’s second largest economy). On the other hand, the key negatives are: bond markets (cautious signalling here has often proven to be correct in the past), and commodities (somewhat backward-looking and less important as an indicator given the world has evolved from physical cyclical goods to structural growth in technology and services). While the broad economic indicators are suggesting caution, these

are predominantly backward-looking, and are therefore often of less importance when it comes to making investment decisions; however, the relative weakness in the UK economic data is such that it leads us to remain underweight UK assets at this time.

As a summary, the conclusion is pretty clear: the more relevant forward-looking items are positive while the less important backward-looking factors signal caution. In terms of investment positioning, this means that we can lean towards that more positive “onwards and upwards” stance. It is not often that we get such unambiguously optimistic signals.

STOCK PICKING

The supportive backdrop has led us to focus our research efforts on identifying those stocks well placed to take advantage of it, and in June we added a position in eBay across the funds.

In its core marketplace, eBay has generated over 20% gross merchandise value (GMV) growth recently as the pandemic has accelerated the shift to online and led to an increase in demand for stay-at-home products. As a pure-play platform, eBay does not own inventory, and this proved to be very beneficial as competitors initially struggled to fulfil high order volumes and buyers were driven to eBay’s site. A prolonged tailwind in e-commerce spending on stay-at-home products is expected, while indications suggest that those new buyers are remaining on the platform. Aside from the pandemic, the adoption of payments and promotion listing is forecast to add c.\$3bn to the top-line, which would drive 8% revenue at a compound annual growth (CAGR) for 2019 - 2023 earnings. The company is also a highly cash generative business (c.9% free cash flow yield FY21) and has bought back c.30% of its market capitalisation over the last couple of years. Further buybacks and margin expansion from operational efficiencies are forecast to drive mid-teens earnings per share (EPS) growth going forwards.

Prior to the Covid-19 outbreak, recent growth had been somewhat stagnant due to a series of execution missteps, a lack of strategic focus on the core business and intense competition, but we are far more confident on the long-term prospects. eBay remains the preferred site amongst smaller sellers, the new CEO has a strong e-commerce background,

and eBay is still the second largest online retailer outside China.

In addition to the position initiated in eBay, we are also currently working on several other new stock-specific ideas, encouraged and directed by the macroeconomic indicators we track. Watch this space.

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 30 JUNE 2020

	YTD	2019	2018	2017	2016	2015
Close Conservative Portfolio Fund	-2.8%	12.5%	-2.7%	9.0%	5.4%	2.0%
IA 20-60	-4.1%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Balanced Portfolio Fund	-4.7%	17.1%	-2.9%	11.8%	6.3%	2.9%
IA 40-85	-4.3%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Growth Portfolio Fund	-3.7%	21.9%	-3.4%	12.5%	6.8%	2.9%
IA Flexible Investment	-4.0%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE :

FE Analytics 03.07.2020; 2020 (YTD) data as at 30.06.2020; fund performance is total return net of fees with dividends reinvested for X Acc share class.

IMPORTANT INFORMATION

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