Close Brothers Asset Management

Assessment of Value

31 MARCH 2020

Introduction

Welcome to our first Assessment of Value report. Our regulator, the Financial Conduct Authority (FCA), has introduced new rules requiring all UK authorised fund managers to assess the overall value their authorised funds deliver to investors, and to publish an annual summary of these assessments.

We believe this exercise will improve transparency and strengthen fund governance across the UK funds spectrum, and we welcome the opportunity it gives us to share with you how we have performed against the different assessment criteria.

Our range of funds has a long track record of performing well in difficult market conditions, and this was proved once again during the COVID-19 pandemic and the resulting volatility in global markets. Our fund managers and investment and research teams work together as part of our collegial culture. All our clients, irrespective of the size of their investment, benefit from our global research capability, which we use to help identify interesting opportunities for the long term that we believe will support their investment goals.

Martin Andrew
Chief Executive Officer,
Close Brothers Asset Management

Introduction

THE FCA HAS DEFINED SEVEN CRITERIA FOR THIS ASSESSMENT OF VALUE

1. Quality of service
2. Performance
3. Costs
4. Economies of scale
5. Comparable market rates
6. Comparable services
7. Classes of unit

For our report, we have added two additional criteria that we regard as important:

8. Liquidity

Maintaining liquidity on daily priced funds is important at all times, but especially in periods of market volatility such as we experienced in the first quarter of 2020. We do not manage any property-based funds and will not normally hold any unquoted shares in our fund range, as these can prove difficult to sell, even under favourable market conditions. Liquidity is monitored regularly and reported monthly to our Investment Review Committee.

9. Product governance

We are also conscious of our product governance obligations, in particular the need to ensure that funds remain fit for purpose and are distributed in accordance with their target market, so we have assessed this as well.

Producing this report involved looking at all of our funds in turn and reviewing them against each of these criteria. The matrix on page 4 shows the funds included within this assessment and a summary of our findings.

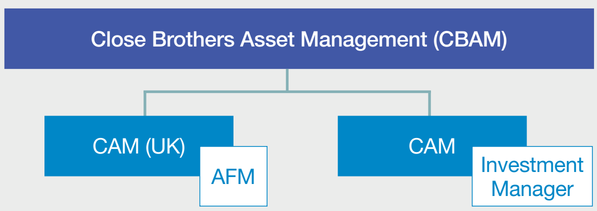
KEY POINTS

- We have not identified any issues relating to quality of service to our clients and investors
- Each of our funds has performed in line with its stated performance objectives, and although the returns on some of them have been negative due to recent unfavourable market conditions, they compare well to their peer group – Investment Association (IA) sector comparators
- Our fund costs generally remain below their IA sector comparator. The exception is one of our specialist funds (Strategic Alpha), where we are now reducing our fee
- Some of our unit holders still hold more expensive legacy classes of units. Although some of these clients receive management fee rebates through their platforms, others do not. A recent change in the FCA rules allows us to convert such units without the need for a unitholder vote, subject to updating the relevant prospectus to allow this. We are now undertaking this exercise for several of our funds.

OUR GOVERNANCE MODEL

Close Asset Management (UK) Limited (CAM (UK)) acts as Authorised Fund Manager (AFM) for the Close Brothers Asset Management (CBAM) fund range. Although a wholly owned subsidiary of CBAM, CAM (UK) is a separate and distinct company from Close Asset Management Limited (CAM), the investment management company appointed by CAM (UK) to manage CBAM's funds. This distinction is important as it helps ensure accountability and separation of responsibilities – fund oversight by CAM (UK), investment management by CAM.

To reinforce the separation from CAM and provide independent oversight, CAM (UK) has appointed two independent Non-Executive Directors. Their role is to represent the interests of our unitholders by overseeing the AFM's governance of the CBAM fund range; both how the funds are managed and how they are administered. This includes outsourced functions such as transfer agency, custody and fund accounting, as well as the separate Trustee role, which are delegated to Bank of New York Mellon (BNYM). The Board, including Non-Executive Directors, holds fund managers to account and provides scrutiny, robust challenge and oversight.



Value assessment for individual funds

		Quality of service	Performance	Costs – general	Economies of scale	Comparable market rates	Comparable services	Classes of unit	Liquidity	Product governance-related issues	Overall
	Close Portfolio Funds										
1	Bond Income	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
2	Select Fixed Income	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
3	Diversified Income	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
4	Conservative	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
5	Balanced	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
6	Growth	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
	Close Managed Funds										
7	Income	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
8	Conservative	Green	Green	Amber	Green	Green	Green	Amber	Green	Green	Green
9	Balanced	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
10	Growth	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green
	Close Tactical Select Passive Funds										
11	Conservative	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
12	Balanced	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
13	Growth	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	Specialist Funds										
14	Strategic Alpha	Green	Green	Red	Green	Green	Amber	Amber	Green	Green	Amber
15	techMARK	Green	Green	Green	Green	Green	Green	Amber	Green	Green	Green

Throughout this report you can see how each of our funds performed under each assessment criteria, using the fund number in the table above.

KEY

- Value delivered
- Value delivered but some remedial action required to avoid future client detriment
- Value not delivered, further action required

1. Quality of service

WHAT WE ARE ASSESSING

The range and quality of services we provide to unitholders.

ASSESSMENT

Funds are designed to meet the needs of a collective group of investors and each fund is managed in accordance with its Prospectus and stated investment objective. Administration and service are very important, so how and what we communicate to our clients matters, as does the service they receive.

We maintain a dedicated Fund Operations team whose role is to oversee the daily administration of these funds, working closely with our administrator and the custodian, BNYM, to whom the actual fund administration is delegated. BNYM is responsible for valuing and pricing the funds and for handling the daily inflows and outflows, as well as acting as the funds' Trustee, so they play an important governance oversight role.

Each of the funds described in this report is available through our own custody and administration platform, which clients can access on either a self-directed or advised basis. They can also be bought and sold through a wide range of external platforms, as well as directly though BNYM as our Transfer Agent on either a self-directed or advised basis.

Our principal interaction directly with end investors is with clients who are either advised by CBAM or who invest through our own platform. Our funds are also widely held across the main external platforms, where our relationship is with the platforms as opposed to their underlying clients. However, many of these clients are in turn intermediated, which means they are advised by an Independent Financial Adviser or other professional. We maintain a dedicated Intermediary team who manage our relationships with these professionals. This is a useful source of external feedback on our funds, supplementing the insights we receive through our direct investors.

We received one complaint during the reporting year that relates to the management of our funds. This concerned the FTSE techMARK fund and related to absolute rather than relative performance. The complaint was not upheld.

Where we have received complaints about our funds in the past, these have been resolved without intervention from the Financial Ombudsman Service or the need for us to make a judgement against ourselves. Moreover, the results of a recent survey of a representative sample of our direct, advised clients indicates broad satisfaction with the performance and service they have experienced.

OUR ASSESSMENT OF VALUE

For each of the criteria, we have broken down our performance for each of our 15 funds, as follows

- Value delivered
- Value delivered but some remedial action required to avoid future client detriment
- Value not delivered, further action required

2. Performance

WHAT WE ARE ASSESSING

The performance of our funds, considered over an appropriate timescale and bearing in mind each fund's investment objectives, policy and strategy.

ASSESSMENT

We define value in this context as the performance delivered net of fees, having regard to a fund's stated risk profile, investment objective and cost structure. The cost structure will depend partly on the fund's investment style, which will be lowest for funds that use passively-run index-tracking vehicles, but higher for multi-manager funds, which select and blend other providers' funds.

THE PERFORMANCE DELIVERED BY OUR FUNDS TO THE END OF MARCH 2020 IS SUMMARISED BELOW

CBAM Fund range (X class units only)

Performance net of fees to 31 March 2020		Performance summary		
		1yr	3yr	5yr
Fixed Income	Close Bond Income Fund	0.8%	6.5%	15.1%
	IA Sterling Corporate Bond	0.8%	5.5%	13.7%
	Close Select Fixed Income Fund	-2.8%	3.1%	11.9%
	IA Sterling Strategic Bond	-1.3%	3.1%	9.8%
Diversified Income	Close Diversified Income Portfolio Fund	-5.8%	-2.1%	8.1%
	Close Managed Income Fund	-9.8%	-7.3%	4.3%
	IA Mixed Asset 20-60% Shares	-7.2%	-3.8%	6.0%
Conservative	Close Conservative Portfolio Fund	-3.5%	3.0%	9.2%
	Close Managed Conservative Fund	-6.0%	-2.7%	8.3%
	Close Tactical Select Passive Conservative Fund	-6.1%	-2.2%	11.5%
	IA Mixed Asset 20-60% Shares	-7.2%	-3.8%	6.0%
Balanced	Close Balanced Portfolio Fund	-5.5%	3.7%	11.0%
	Close Managed Balanced Fund	-6.2%	0.3%	13.8%
	Close Tactical Select Passive Balanced Fund	-8.5%	-3.5%	13.0%
	IA Mixed Asset 40-85% Shares	-8.0%	-2.6%	10.8%
Growth	Close Growth Portfolio Fund	-4.0%	6.0%	14.5%
	Close Managed Growth Fund	-6.3%	1.8%	16.9%
	Close Tactical Select Passive Growth Fund	-10.2%	-3.7%	13.6%
	Close Strategic Alpha Fund	-8.7%	-1.9%	12.7%
	IA Flexible Investment	-8.2%	-2.9%	10.6%
Other	Close FTSE techMARK Fund	-1.3%	7.9%	30.0%
	FTSE techMARK Index	-1.4%	6.0%	24.6%

Numbers rounded to 1 decimal place.

All of our funds were adversely affected by the sharp market downturn in March 2020. Positive absolute returns delivered to the end of January 2020 had become negative by the end of March, our funds' accounting year end on which this report is based. This has been a function of the wider market uncertainty caused by COVID-19 and fluctuations in the price of oil, which has provoked sharp falls across the equity markets and therefore impacted our higher-risk funds in particular. However, we have been reassured by the fact that many of our funds remain ahead of their peer group. We attribute this to several factors, including our conservative investment style, our good stock and sector selection and our bias (within our equity allocations) towards overseas markets – in particular the US, which has significantly outperformed the UK. Moreover, markets have recovered since the low point of March, and the performance of our funds has improved in tandem with that recovery.

For our Portfolio fund range, which invests directly in stocks and shares, exposure to non-sterling assets is partially hedged to reduce the associated currency volatility. The performance impact of this is positive when sterling rises, but negative when sterling falls. Over the 12 months to 31 March 2020, sterling weakened relative to other major currencies, especially in March, so the performance contribution from hedging was negative. Despite this headwind, only one of our funds subject to hedging did not outperform its respective sector comparators over this period.

With the exception of our FTSE techMARK Fund, which has a specific benchmark against which to target performance, all of our other funds have adopted the IA sector in which they are classified as their comparator. This provides clients with an independently generated performance yardstick against which to judge a fund's performance relative to other similar funds. Although previously included in our fact sheets, these comparators are now also designated in our prospectus.

Our management of the funds has regard to these IA comparators, and in particular to the exposure limit constraints they contain, such as minimum and maximum percentages that can be held in equities. To help ensure that our investment strategies remain suitable for their designated risk level, we also use an internally generated Strategic Asset Allocation framework to help us monitor fund volatility.

OUR ASSESSMENT OF VALUE

Please refer to the table and key on page 4

3. Costs

WHAT WE ARE ASSESSING

The cost of providing the services to which each of our charges relates.

ASSESSMENT

When reviewing the cost of a fund, it is also important to consider the value it has delivered. The lowest-cost funds employ passively managed strategies. These use index-tracking vehicles, so they tend to follow the market, either upwards or downwards. Although we only offer one purely passive fund (our FTSE techMARK Fund), three of our funds, which make up the Close Tactical Select Passive range, are active-passive, which means that they combine active asset class selection with passive security selection. Together, these three active-passive funds are our lowest-cost products.

The rest of our funds employ both active asset class selection and active underlying security selection, and therefore have a higher cost while still remaining competitive relative to their peer group.

Cost comparison – CBAM funds v IA sector comparator

Category	Published OCF (ongoing cost of funds)	Relative
IA Sterling Corporate Bond	0.51%	
Close Bond Income Portfolio Fund	0.48%	-0.03%
IA Sterling Strategic Bond	0.73%	
Close Select Fixed Income Fund	0.48%	-0.25%
IA Mixed Asset 20-60% Equity	1.07%	
Close Diversified Income Portfolio Fund	0.74%	-0.33%
Close Conservative Portfolio Fund	0.89%	-0.18%
Close Managed Income Fund	1.07%	0.00%
Close Managed Conservative Fund	1.08%	0.01%
Close Tactical Select Passive Conservative Fund	0.48%	-0.59%
IA Mixed Asset 40-85% Equity	1.06%	
Close Balanced Portfolio Fund	0.90%	-0.16%
Close Managed Balanced Fund	1.08%	0.02%
Close Tactical Select Passive Balanced Fund	0.51%	-0.55%
IA Flexible Investment	1.19%	
Close Growth Portfolio Fund	0.94%	-0.25%
Close Managed Growth Fund	1.06%	-0.13%
Close Tactical Select Passive Growth Fund	0.50%	-0.69%
Close Strategic Alpha Fund	1.56%	0.37%

SOURCE FE Analytics data as at April 2020; IA sector numbers are simple averages of all the funds in each sector. Table only includes X class units.

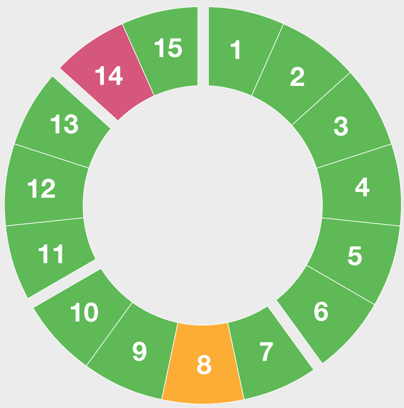
Within our active fund range, we offer a mix of funds that invest either directly in stocks or indirectly through other managers' funds and similar vehicles, which may include some passive elements to reduce costs. The latter are known as multi-manager funds. These tend to have the highest overall cost because they have two sets of costs – the running of the funds themselves, plus the charges on the externally managed vehicles we are selecting. These multi-manager funds allow clients to delegate the work involved in selecting and monitoring other fund managers and can help minimise volatility, because the assets are spread across different managers and sectors of the market.

Our active funds that invest directly in equities and bonds enable clients to delegate security selection to our investment professionals. These funds generally have a lower cost than multi-manager funds and can perform better if their managers pick the right stocks. However, they can also be more volatile, which can result in greater performance dispersion relative to their multi-manager peers.

As we offer all three different investment styles, this helps explain why our costs vary across our fund range. In the table on page 8, we have included a cost comparison for our funds, relative to the average of their IA sector peer group. Generally, we compare favourably with the market, with all of our Tactical Select and Portfolio funds being lower-cost (highlighted in green) and our multi-manager Managed Fund range broadly in line (highlighted in amber). However, this exercise has revealed that one of our more specialised funds – Strategic Alpha, whose long-term asset allocation is 100% equity but which adopts a multi-manager investment style – is significantly more expensive than the funds in our multi-manager Managed Fund range, although not relative to some of the multi-manager funds it is competing against. We are therefore reducing our fee on this fund.

Prior to February 2018, our fees comprised two elements: a fixed Annual Management Charge to cover our fund management costs; and a variable element consisting of the charges made to the funds for custody, administration, trustee, auditor and legal costs incurred. In response to the recommendations included in the FCA's Interim Report on their Asset Management Market Study, we decided to combine these two elements into a single Fund Management Fee (FMF), in order to provide greater transparency and certainty over the actual amount of overall fees charged to a fund. Once fixed, the FMF cannot be increased without consulting unitholders. However, it can be reduced if the Board feels that there is scope for economies of scale within the ancillary costs, which were previously charged directly to the funds but are now paid for directly by CAM (UK). We conduct an annual review of the FMF across our funds to determine whether there is any scope for fee reductions. At the last review, in December 2019, it was decided to leave these unchanged for the time being. However, this does not preclude reductions at future annual reviews, where this can be justified.

OUR ASSESSMENT OF VALUE



Please refer to the table and key on page 4

4. Economies of scale

WHAT WE ARE ASSESSING

Whether, and where, we are able to achieve savings and benefits from economies of scale.

ASSESSMENT

Our use of BNYM as fund administrator and transfer agent allows us to benefit from their economies of scale, enabling us to deliver services to unitholders with better value for money. With the exception of Strategic Alpha and Close FTSE techMARK, our funds sit within a single fund umbrella structure, which allows for economies of scale. We have assessed the size of each fund, our costs of running the funds, the share classes and the underlying operations and have determined that we do not have any economies of scale that we can pass on to unitholders at this time.

5. Comparable market rates

WHAT WE ARE ASSESSING

The market rate for any comparable service we provide.

ASSESSMENT

As part of our review of our underlying funds, we conducted more detailed analysis of how they compared with similar funds in their respective IA sectors. Generally, we were able to demonstrate that we compared favourably, as the table on page 4 demonstrates. As mentioned in the Costs section (page 9), our specialist Strategic Alpha fund is out of line with our Managed range, with which it shares the same management style, so we have decided to reduce the fee on this fund.

OUR ASSESSMENT OF VALUE

OUR ASSESSMENT OF VALUE

Please refer to the table and key on page 4

6. Comparable services

WHAT WE ARE ASSESSING

How our charges compare with those for other services we offer to clients.

ASSESSMENT

Most of the funds described in this document do not have any equivalents elsewhere within CBAM. The only current exception is our directly invested Portfolio Fund range, where we manage equivalent (white-labelled) funds on behalf of an external institutional client; in this case, we believe that the total costs to an end investor are broadly comparable with our own funds.

7. Classes of units

WHAT WE ARE ASSESSING

Whether it is appropriate for our unitholders to hold units in classes that are subject to higher changes than for other classes of the same scheme with substantially similar rights.

ASSESSMENT

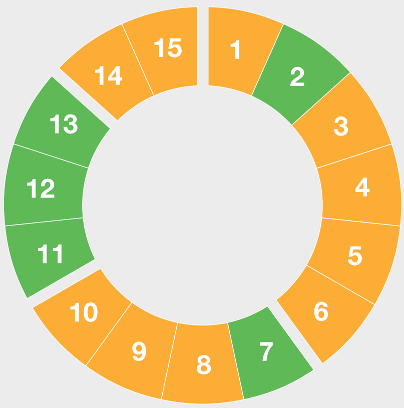
Like a number of our peers who offered funds prior to 2013, CBAM still has legacy share class units that are closed to new business, but continue to attract small inflows from regular investors whose contracts pre-date the introduction of the Retail Distribution Review (RDR) on 31 December 2012.

However, following the review from the FCA allowing conversion and closure of share classes without a unitholder vote, we are now conducting in-depth analysis of all of these residual unit holdings and will seek to close as many of these share classes as we can, through compulsory conversion into our newer post-RDR X share classes, where we judge this to be more beneficial to the underlying clients.

OUR ASSESSMENT OF VALUE

Please refer to the table and key on page 4

OUR ASSESSMENT OF VALUE



8. Liquidity

WHAT WE ARE ASSESSING

The liquidity of our daily priced funds.

ASSESSMENT

Although this is not one of the criteria defined by the FCA, events over the last 12 months have demonstrated that open-ended funds can experience problems liquidating assets. This tends to be a function of the type of assets they hold, with illiquid assets such as physical property and unquoted shares proving particularly problematic.

Our primary strategy to mitigate liquidity risk is to establish liquidity thresholds for each fund, put in place independent monitoring of compliance with those thresholds and conduct periodic stress tests. In addition, we avoid unquoted shares and use Real Estate Investment Trusts (REITS) for our property exposure.

We found no cause for concern in this area and our funds remained open for daily subscriptions and redemptions throughout the assessment period.

9. Product governance

WHAT WE ARE ASSESSING

Whether our funds remain fit for purpose and are distributed in accordance with their target market.

ASSESSMENT

All our funds are mass-market retail. This means that they may be suitable for all types of investor, but that investors should still have regard to their investment priorities, risk appetite, capacity for loss and time horizon for investing. For clients unfamiliar with investing, we would recommend the use of an adviser to help decide which of these funds best meets their needs. We have found no evidence to suggest that our funds are being distributed inappropriately.

OUR ASSESSMENT OF VALUE

OUR ASSESSMENT OF VALUE

Please refer to the table and key on page 4

What we are changing as a result of this assessment

- Compulsory conversion of nine of our legacy (pre-RDR) A and Y share classes to our cheaper (post-RDR) X share class, where we can demonstrate that this will benefit all of the unitholders impacted.
- Conversion of those holders in six of our other (pre-RDR) A share classes where the net fee paid is higher than on our equivalent X class.
- Compulsory conversion of the legacy (pre-RDR) A share classes for our specialist Strategic Alpha and FTSE techMARK funds to the cheaper X class equivalent.
- Reduction in our Fund Management Fee for our Strategic Alpha Fund X share class from 0.93% to 0.68%.
- Reduction in our Fund Management Fee for our Managed Conservative X Inc share class from 0.69% to 0.53%.

If you would like more information on these changes, please contact your usual Close Brothers Asset Management representative.

Close Brothers Asset Management

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