

# Close Portfolio Funds

## Monthly fund manager update

JULY 2020

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### MONTH IN REVIEW

The Close Portfolio Funds all posted positive returns in the month of July. The Conservative fund returned +1.2%, the Balanced fund was up +1.2% and the Growth fund returned +1.8%. All three funds comfortably outperformed their respective IA Sectors, which returned +0.4%, +0.0% and +0.1% respectively.

### FAMILIARITY BREEDS EFFICIENCY

Readers may well know of couples who can finish each other's sentences, or recall the story of the couple who, after decades of marriage, knew each other's old jokes so well that they had numbered them. One of them only needed to say the number of the joke and the other would burst out laughing!

The funds team has been together for a number of years now and this kind of familiarity has found its way into team discussions. We have developed our own "frequent phrases" language amongst ourselves to the extent that we too could number the phrases. In this monthly review, we share some of these phrases to discuss recent investment decisions and market events.

### 1. WHY DON'T WE HOLD MORE OF [INSERT COMPANY NAME HERE]?

This is used when one of our existing holdings does particularly well and we are pleased to the extent that we wish we had bought more. Invariably, the answer to the question is that we already hold a full position size across the funds so we could not have really done any better. A full position amounts to 1.5% in the Conservative fund, 2% in the Balanced fund, and 2.5% within the Growth fund.

In July, we found ourselves using phrase 1 quite frequently, as a number of our holdings made strong gains, including Canadian Gold miner, Kirkland Lake Gold, which soared 31%; our Silver ETF position, which returned 25% on the month; cyber security firm Check Point Software, which was up 17%; and our Platinum ETF holding, which rose 11%, to name only a few! Pleasingly, the funds enjoyed an excellent July overall from a stock selection perspective, as the reporting season has seen 84% of our companies meet or beat expectations on revenue, and 90% meet or exceed expectations on earnings.

### 2. WHY DO WE HOLD [INSERT COMPANY NAME HERE] AT ALL?

This phrase is often used when we have a position which we have initiated on and are continuing to monitor, but which has not quite lived up to our initial expectations.

Thankfully we found ourselves saying phrase 2 about only a few companies in July. These were all relatively small holdings in which we had not yet acquired the necessary conviction to increase the holding to a full size position. In a number of such cases, it was decided that the investment case or market backdrop had changed, and we took the decision to sell the holdings to raise cash for other promising new ideas we are currently working on. Among those positions exited in July were ITV, Lloyds, Ascential and Aggreko in the UK, as well as Orange, Total and Societe Generale in Europe. At present, these sales have increased the funds' cash positions to 11.2% in Conservative, and 9.4% in both Balanced and Growth.

### 3. UK EQUITIES..?

We utter phrase 3 in reference to the relative underperformance of UK equities compared to the rest of the world. It is not tantamount to a four letter word just yet, but given that UK equities currently show -20% declines year-to-date (YTD) vs -12.5% in Europe and +2% in the broad US index (the Nasdaq is up +21%), one can imagine phrase 3 is not often said from a positive perspective at the moment.

Pleasingly, the seven UK equity positions the funds currently hold have all out performed the index, with the London Stock Exchange showing +12% gains, followed by Rio Tinto and Admiral, which have each gained over +6% YTD. This shows it has been possible to make money in the UK equity market - one just needs to be very selective.

### 4. WHAT IS THE CURRENCY HEDGING IMPACT YEAR-TO-DATE?

Currency moves impact the funds' performance each month. Sometimes this can be significant, sometimes it's relatively minimal. Currently, the YTD impact is still marginally negative; by -0.4% in the Conservative fund, -0.5% in the Balanced fund and -0.7% in the Growth fund. However, as the USD weakened by c.4% in July, our currency hedging strategy mitigated this decline in sterling terms, which further aided the strong nominal performance of our US equity holdings.

### 5. WE NEED MORE RAM!

The Close Portfolio Funds' investment process is quite data-driven and quantitative. This can require a fair amount of computing power, and occasionally we run out of capacity. This is never really much of an issue, however, because Close Brothers' IT department always come to our rescue very quickly. With the help of our IT teams, the proprietary quantitative research methods we utilise have so far helped the funds navigate pretty successfully through a turbulent year. We remain patient and will keep fighting the good fight to look after our clients' wealth.

**CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 31 JULY 2020**

	<b>YTD</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Close Conservative Portfolio Fund</b>	<b>-1.7%</b>	<b>12.5%</b>	<b>-2.7%</b>	<b>9.0%</b>	<b>5.4%</b>	<b>2.0%</b>
IA 20-60	-3.7%	11.8%	-5.1%	7.2%	10.3%	1.2%
<b>Close Balanced Portfolio Fund</b>	<b>-3.6%</b>	<b>17.1%</b>	<b>-2.9%</b>	<b>11.8%</b>	<b>6.3%</b>	<b>2.9%</b>
IA 40-85	-4.3%	15.8%	-6.1%	10.0%	12.9%	2.7%
<b>Close Growth Portfolio Fund</b>	<b>-2.0%</b>	<b>21.9%</b>	<b>-3.4%</b>	<b>12.5%</b>	<b>6.8%</b>	<b>2.9%</b>
IA Flexible Investment	-3.9%	15.7%	-6.7%	11.2%	13.8%	2.0%

**SOURCE :**

FE Analytics 04.08.2020; 2020 (YTD) data as at 31.07.2020; fund performance is total return net of fees with dividends reinvested for X Acc share class.

**IMPORTANT INFORMATION**

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