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Close Portfolio Funds

Monthly fund manager update

AUGUST 2020

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Managing Director

MONTH IN REVIEW

The Close Portfolio Funds all posted strong positive returns in August. The Conservative fund returned +2.3%, Balanced +3.0% and Growth +4.1%. All three comfortably outperformed their relevant IA Sectors, which returned +1.3%, +2.3% and +2.5% respectively.

THOUGHTS IN AUGUST

Regular readers will be well aware of the moniker we gave 2020: "The Year of Patience". Well, at the end of August it appears we have finally been rewarded for that patience, as the Conservative and Growth funds both now stand in positive territory for the year-to-date, with Balanced not far behind. The fact that the Balanced fund is currently lagging both Conservative and Growth year-to-date is evidence, if ever it were needed, of what a topsy-turvy year it has been. This is an anomaly we expect to disappear in time.

Now that we are in (or close to) positive territory for the year, the obvious question is how to remain there. Looking at how the funds are positioned at present, one of the most notable points is the fact we are currently running with somewhat higher cash levels than usual – c. 10% in all three funds. Despite this relatively cautious positioning, we still managed to outperform a rising market this month. This is obviously pleasing, while it is also comforting to know that we should have some in-built protection on the downside, and cash available to deploy as and when opportunities present themselves.

Looking forward a little, while August was very positive, September has started in a slightly different vein, with some investors seemingly profit-taking after the US equity market hit new highs. Elsewhere, there are some uncertainties around the health of the global economy, Covid-19 second waves and vaccine trials, the US presidential election, Brexit and long term inflation risks – none of which is anything new of course.

These issues combined, however, have led to a rise in market volatility. The Volatility Index – or VIX – which measures the volatility of S&P500 index options 30 days ahead – has risen notably above its long-term average. Such a move has, in the past, often proven a good buying opportunity.

So, how might we wisely deploy the cash we have available now? Fixed income markets are difficult. The general market weakness in March initially led to a valuation distinction between sovereign bonds (such as UK government gilts), investment grade corporate bonds, and sub-investment grade high yield bonds – yet all sub-asset classes now appear to trade at 'rich' or 'fair value' levels. Gilts offer low risk, but little or no return (indeed certain maturities offer negative yields); investment grade corporate bonds are slightly higher risk, but investors are no longer being adequately compensated for this given how far yields have fallen since March. The story is similar for high yield bonds, and accessing these directly (as we would want to in the Close Portfolio Funds) brings with it insurmountable liquidity problems. For now, therefore, we are happy to stick with our fixed income exposure, but not to add to it.

Alternative assets (or diversifiers) have delivered positive returns of late and aided the funds' performance. Our gold and silver positions especially have performed strongly, while the sole absolute return fund we hold, the ASI Global Absolute Return Strategies fund, has done exactly what it says on the tin – delivered positive absolute returns. At present we are happy with our positioning in this space, with further options limited.

All of which leaves equities as the place to go. We are currently holding a slightly lower equity weighting than usual, awaiting that better buying opportunity. Having just updated our expected returns model for equities, we now see reasonable upside potential beginning to emerge in developed market equities, but one most definitely needs to be selective. We fully intend to keep investing in innovative, high quality companies which add value to clients, and those which have resilient demand for their services and products. High quality management is also important of course, as is avoiding the more cyclical and economically sensitive areas of the market and any value traps, which are plentiful.

Close Brothers Asset Management

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 31 AUGUST 2020

	YTD	2019	2018	2017	2016	2015
Close Conservative Portfolio Fund	**0.6%**	**12.5%**	**-2.7%**	**9.0%**	**5.4%**	**2.0%**
IA 20-60	-2.5%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Balanced Portfolio Fund	**-0.7%**	**17.1%**	**-2.9%**	**11.8%**	**6.3%**	**2.9%**
IA 40-85	-2.1%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Growth Portfolio Fund	**2.0%**	**21.9%**	**-3.4%**	**12.5%**	**6.8%**	**2.9%**
IA Flexible Investment	-1.5%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:
FE Analytics 04.09.2020; 2020 (YTD) data as at 31.08.2020; fund performance is total return net of fees with dividends reinvested for X Acc share class.