

# Close Diversified Income Portfolio Fund

## Monthly fund manager update

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### PERFORMANCE

The Close Diversified Income Portfolio Fund fell -0.3% in September, which compared favourably to the -0.4% fall for the Investment Association Mixed Investment 20-60% Shares sector. Stock markets were generally weak, with the UK market falling -1.6%, the European market -2.4%, and the S&P 500 -3.3% - even the NASDAQ declined -4.3%. However, weaker sterling tempered much of the fall in international equities for sterling based investors.

The fund's outperformance of the IA Sector was, helped by the continued recovery in Honeycomb Investments plc, as the continued share buyback propelled the shares up a further 10%. Despite this recent rise, the shares remain on a wider discount than the Board is targeting, so we are hopeful they will continue the buyback programme and this will lead to further recovery in the share price. Technical products and services supplier, Diploma plc was also a strong performer (up 14%) as it announced an acquisition that should add c.20% to earnings - continuing their long track record of buying private companies on much lower valuations than the public markets trade at.

It is also worth mentioning that, as I am writing this month's update, two portfolio holdings have risen c.15% in recent days; litigation finance firm, Burford Capital reported good interim results, and Schroder European REIT sold an asset at a premium which will raise its Net Asset Value (NAV) 15%. Both of these holdings have been underperformers in recent months for different reasons (one due to a short-seller attack and the other due to Covid-19), but it is notable how quickly their share prices have turned around on positive news flow. Despite the bounce, Schroder European REIT still trades at a 50% discount to that newly increased NAV, so we still see good value in the holding.

Gilts rose over the month as the 10 year yield dropped back from 0.31% to 0.23%. Gilts from 0-5 years remain negative yielding. Corporate bond spreads rose in sympathy with weaker equity markets, with BBB spreads moving from 186bps to 193bps. However, this remains below the long term average of 213bps.

In the alternatives space, infrastructure, REITs, gold and property debt were generally down. Whilst property stocks remain out of favour, it was interesting to see private equity

vehicles using the opportunity to take two stakes in listed REITS in the month, while there have been a number of reported deals in the office and industrial property sectors agreed at valuations similar to pre-Covid levels (and even above in Schroder European's case).

### PORTFOLIO ACTIVITY

John Laing Group (the Infrastructure investor) was sold after the successful completion of an expected asset disposal sent their shares up 11% in September. This share price recovery eliminated the discount to NAV that they were trading at when the fund bought into them.

Greencoat UK Wind was materially up-weighted in their share placing at 131p. The position had been largely sold earlier in the year at prices between 142p-152p. The holding is now once again one of the fund's top 10 positions in the alternatives space, with the lower entry price improving the forward looking expected returns for investors.

### YIELD

Approximately 2.7% of the fund's equity exposure has been impacted by dividend cuts or deferrals (down from 4.1%) reducing the overall yield by c.14bps (Note: this assumes zero dividends all year for those deferring which may prove to be overly pessimistic). September saw both Bunzl and Diploma reinstate their dividends, which continues the positive trend started last month. REIT dividend cuts have hurt the fund's yield by just 2bps now after Schroder European REIT increased their Q3 dividend from the Covid-19-hit Q2 level.

Given that the 7.5% of the fund which was invested (from cash and gilts) into attractive yields during the sell-off added 35bps to the yield, we have more than offset the negative impact on yield through active management.

The fund's yield (based on end of month prices) rose to 4% over September, up from 3.8%, and helped by the dividend reinstatements, investment into Greencoat UK Wind (5.4% yield) and the slightly lower NAV price over the month. The yield on the Fund is the result of all the individually picked attractive risk/reward ideas. In this tough environment the hard work continues to find attractive investment opportunities across the whole spectrum of asset classes available to the fund.

## OUTLOOK

The key to the economic outlook remains the health of the major economies once various government support measures are reduced / ended, and indeed how long governments are going to impose lockdowns of varying degrees upon their citizens. Over the month, the UK reversed its policy of encouraging people to get back to the office, just as greater numbers were starting to return. One statistic for a café in London's financial district showed that business was starting to recover (-65% year-on-year) but after the reversal in policy trading is back to -80% year-on-year. The Office for National Statistics (ONS) estimates that around 3 million workers (around 12% of private sector employment) were still

using the current furlough scheme either fully or partially through to early September. It remains to be seen how these people transition to the Chancellor's new Job Support Scheme. The US election is looming and it is interesting to see that the IBD/TIPP poll (one of the only polls to call the Trump win in 2016) has Biden ahead by 5.6%. Biden has said that he will raise corporate taxes if elected, so may not be as market friendly as Trump is seen.

We will continue to do our best to find attractive risk adjusted investments, and to be guided by valuations rather than the daily roller coaster of the markets.

## CLOSE DIVERSIFIED INCOME PORTFOLIO FUND PERFORMANCE AS AT 30 SEPTEMBER 2020

	YTD	2019	2018	2017	2016	2015
<b>Close Diversified Income Portfolio Fund</b>	<b>-2.7%</b>	<b>9.8%</b>	<b>-1.8%</b>	<b>5.4%</b>	<b>7.8%</b>	<b>2.4%</b>
IA Mixed Investment 20-60% shares	-2.9%	11.8%	-5.1%	7.2%	10.3%	1.2%

### SOURCE:

FE Analytics 03.10.2020; YTD data as at 30.09.2020. Performance is total return, net income reinvested after fees, X Acc share class.

## IMPORTANT INFORMATION

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