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# Close Diversified Income Portfolio Fund

## Monthly fund manager update

OCTOBER 2020


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### PERFORMANCE

The Close Diversified Income Portfolio Fund fell -0.3% in October. This compared to a -1.1% fall for the IA 20-60% sector. Stock markets were generally weaker over the month (the UK market fell -4.9%, European equities declined -7.4%, the S&P 500 was down -2.8%, and the NASDAQ fell -2.3%) as Covid-19 cases picked up and further nationwide lockdowns were imposed in major European economies. The allocation to alternatives helped to provide diversification benefits in the equity sell off, as all three property debt funds posted gains, four of the five Infrastructure funds ended the month in positive territory and two of the four Renewables funds also rose. The Schroder European REIT (mentioned in last month's update) had a stellar month in October, gaining 27% after selling its largest asset at a premium and renting out empty space in Hamburg.

As at the end of the month, a number of the fund's investment trust holdings remain at a discount to their stated Net Asset Values (NAV). If all such positions were to trade back at their NAVs it would add a further 4.8% the fund's performance. This is of note (and hopefully of some comfort to investors) because it could well offer a margin of safety should the economy or stock markets weaken further from here. On the other hand, should the global economy recover quickly from the impact of the pandemic, there should be scope to claw back some of this lost performance. How and when this will happen I do not know, though as I have said in past commentaries I am pushing management teams and Boards to address the large discounts.

As I write this commentary in early November, it is interesting to see that one of the property debt funds, ICG Longbow, has just announced that it will allow shareholders to vote on whether it should wind itself up and return cash to shareholders. The shares are up 13.5% on the news. ICG Longbow's property debt business has performed well through the crisis so far, but because the stock market has sold the shares off, the Board has decided to allow a vote on whether it should continue. Today's price rise recoups 0.2% of that 4.8% performance.

Despite weak equity markets, Gilt yields rose and credit spreads fell (one would normally expect the opposite). The 10-year Gilt yield rose slightly to 0.26% from 0.23%. Gilts from 0-5 years remain negative yielding. BBB spreads fell, from 193bps to 185bps remaining below the long term average of 213bps.

### PORTFOLIO ACTIVITY

With the US elections, Brexit and the Covid-19 fallout all still on the horizon, I decided to prune some of the short-dated bond ideas that have performed strongly of late and allow the fund's cash build up to 8.2% in case we see some further near term market volatility which could throw up some much more attractive risk:reward ideas. This had virtually no impact on the fund's yield given that the Nestle 2020 bond was exited on a yield of just 0.2%, the Admiral 2024 position at 1.4% and the Enel Perp bond at 1.76%.

Within equities, the fund's position in Hastings was sold following a takeover approach by Sampo, and the stock going ex-dividend for the final time.

One new idea was added in the month, a Jupiter (the fund management company) 2030 bond at a 5.9% yield.

### YIELD

The Fund's yield (based on end of month prices) remained static at 4%. 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 risk:reward ideas across the whole spectrum of asset classes in which the fund is able to invest.

### OUTLOOK

As we enter November, fresh Covid-19 lockdowns are putting economic growth forecasts at risk once again, although investors are now hoping that Central Banks (QE and interest rate cuts) and governments (fiscal spend) ride to the rescue once again.

At the time of writing, the US election is looming. It has been interesting to see that the IBD/TIPP poll (one of the only polls to call the Trump win in 2016) has Biden ahead by 6% - although they do caution that the voting in swing States is closer, so a Biden win is still, "*not assured*". It is also interesting to note that a lot of sell-side analysts appear to have convinced themselves that Biden is now a positive for markets (due to the likelihood of a greater stimulus package) despite earlier negative comments around his corporate tax increases when we was not polling quite so well.

I will continue to do my 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 31 OCTOBER 2020

| | YTD | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| **Close Diversified Income Portfolio Fund** | **-3.0%** | **9.8%** | **-1.8%** | **5.4%** | **7.8%** | **2.4%** |
| IA Mixed Investment 20-60% shares | -4.0% | 11.8% | -5.1% | 7.2% | 10.3% | 1.2% |

SOURCE:

FE Analytics 03.11.2020; YTD data as at 31.10.2020. Performance is total return, net income reinvested after fees, X Acc share class.