Close Managed Funds

Monthly fund manager update

DECEMBER 2020

MANAGED FUNDS TEAM

YEAR IN FOCUS

There are some years where events transcend the vagaries of financial markets and form a kind of bookend to what happened before. It seems likely that 2020 will be remembered as a year when much changed, and so much of what we know and take for granted was shaken. Yet, in many respects, we saw an acceleration of trends that were already in train and areas of the market where calendar year returns were very strong.

Against this backdrop the Close Managed Funds did a very decent job, with two of the four strategies strongly outperforming their respective IA sector and three delivering good downside protection for clients during the precipitous market sell-off of late February and March. Over the year, we had some exceptional returns from the Baillie Gifford American fund, which delivered a somewhat incredible +121.8%. As we have mentioned in previous monthly updates, the fund has significant exposure to technology disruptors like Amazon, Shopify, and Tesla which have all seen enormous price rises in 2020. In addition, we have held the Scottish Mortgage Trust, which is also managed by Baillie Gifford, and shares one of the fund managers. It is a bit more global in nature but still returned +110.5%. Obviously, these are supernormal returns for a calendar year, but they are also long-term holdings for the Managed funds and ones we have been investing in for many years.

The tech theme also played out well for us via the Lyxor Nasdaq 100 ETF, a tracker that aims to replicate the performance of the US Nasdaq index, which delivered +43.4%. This demonstrates one of the advantages of the range, namely the flexibility to utilise both active and passive sources of return.

Another success was our exposure to China, Asia, and emerging markets, which held up better during the pandemic than many of their developed market peers, and where we hold managers again favouring technology and consumer services stocks. The Allianz China A-Shares fund (held within Managed Growth, and more recently within Managed Balanced), returned +68% for the calendar year, whilst the Schroder Asian Total Return fund (another long-term holding across Close Managed Conservative, Balanced, and Growth Funds) delivered +26.8%. Our main emerging market fund held across the non-income portfolios, RWC Global Emerging Markets, had a strong year with a return of +31.3%. Its portfolio of stocks also includes 'frontier' markets like Vietnam and an overweight allocation to materials companies in Africa – providing some potential should we see a cyclical upswing materialise in 2021.

2020 was yet another challenging year for the UK, which was the poorest performing major equity market with Coronavirus and Brexit weighing heavily on sentiment. The makeup of the UK market was a significant factor in its underperformance: very little technology exposure, plenty of consumer exposed stocks, along with banks and global oil majors, held it back. The UK index was down over 13% but thankfully, most of our active managers were able to provide some protection; the Baillie Gifford UK Alpha fund was even able to eke out a positive total return of +4.3%, partly due to its exposure to growth names likes Ocado. It was also pleasing to note that even our largest UK active allocation, the NinetyOne UK Alpha fund, produced a markedly better return than tracking the index would have achieved, at -4.8%.

Whilst it has been an excellent year on the whole, we cannot talk about 2020 without acknowledging the incredibly challenging year that income portfolios have had, and in particular equity income funds. In simplistic terms, a dividend is a return that the company pays out to its shareholders. In the face of an unprecedented series of events many companies, especially those benefiting from government support, decided that withholding dividends was preferable to immediately laying off staff, avoiding any potential reputational damage. Indeed, in some sectors (e.g. banks) and countries (e.g. UK), politicians and regulators made it clear that they did not expect companies to pay a dividend until the crisis had subsided. All of this led to a very poor year for equity income, and many of our equity holdings within Managed Income were negative. Thankfully, we did have some exposure to positive markets: the Schroder Asian Income fund returned +11.3% whilst the BlackRock Continental European fund managed a very healthy +12.4%, helped in part by exposure to Swiss healthcare and consumer stocks.

Elsewhere, it was a decent year for fixed income and this helped Managed Income to a degree – although our allocation to short duration credit hurt both Managed Income and Conservative on a relative basis. Our two most significant holdings across the portfolios, the Nomura Dynamic Bond and Henderson Strategic Bond funds, returned +10.9% and +10.4% respectively and shrugged off the sell-off in credit during the end of Q1. The challenge for fixed income investors has been balancing allocations to both short duration and long duration assets. With rates so low the next move is likely to be upwards and we prefer shorter duration bonds, which will be impacted less than long duration assets in this scenario. In order to counter these low returns, we own credit (corporate) rather than Government issues at the shorter end of the curve to enhance what meagre return is available. As a way of balancing the slightly elevated risk of holding corporate debt we also hold longer-dated Government bonds which yield very little but can play a role as an equity hedge when there is a flight to safety - as they did in 2020. The problem of balancing risk and return, duration and credit quality seems likely to persist into 2021,

In alternatives, it was a good year for gold, which returned over +20% in sterling terms. We have maintained around a 4% to 5% allocation to gold throughout the year and have avoided topping up recently, which has proven to be the right decision. Within our infrastructure holdings, which we use across all four funds, it was a rocky year as the funds sold off during the initial coronavirus crisis, before largely rebounding. We held our nerve during this period, and even topped up a few holdings with all of them, barring GCP Infrastructure and The Renewables Infrastructure Group, in positive territory by year-end. Crucially, the income from these funds remained largely intact since much of it comes from public sector sources. The exception to this was GCP Infrastructure, which accounts for its relative underperformance.

Finally, there was a positive return for two of our absolute return strategies. The Neuberger Berman Uncorrelated Strategies fund and the Lumyna Sandbar Global Equity Market Neutral fund returned +4.6% and +6.2% respectively and crucially were both in positive territory at the end of the first quarter, when significant parts of the wider Managed funds were showing a loss. Absolute return funds have often been criticised for not holding up well in a crisis; it was satisfying to see our two managers in this area do the job we selected them for.

Overall, against a tough backdrop, all four Close Managed Funds were able to produce a positive total return for the year.

Thank you for your support.

CLOSE MANAGED FUNDS DISCRETE PERFORMANCE AS AT 31 DECEMBER 2020

	YTD	2019	2018	2017	2016	2015
Close Managed Income Fund	**0.3%**	**10.3%**	**-3.7%**	**6.4%**	**9.1%**	**4.5%**
IA £ 20-60% Equity	3.5%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Managed Conservative Fund	**3.5%**	**11.2%**	**-4.3%**	**7.0%**	**8.6%**	**4.2%**
IA £ 20-60% Equity	3.5%	11.8%	-5.1%	7.2%	10.3%	1.2%
Close Managed Balanced Fund	**9.0%**	**15.3%**	**-5.1%**	**10.8%**	**10.4%**	**4.7%**
IA £ 40-85% Equity	5.3%	15.8%	-6.1%	10.0%	12.9%	2.7%
Close Managed Growth Fund	**13.5%**	**17.5%**	**-6.0%**	**14.3%**	**10.3%**	**6.3%**
IA £ Flexible Investment	6.7%	15.7%	-6.7%	11.2%	13.8%	2.0%

SOURCE:

FE Analytics as 31.12.2020, data as at 04.01.2021. Performance is total return, net income reinvested after fees, X Acc share class

.