

Close Portfolio Funds

Monthly fund manager update

MARCH 2021



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MONTH IN REVIEW

The Close Portfolio Funds all delivered positive returns in March. The Conservative Fund returned +0.58%, Balanced added +1.04% and Growth +1.37%. Their relevant IA Sectors returned +0.85%, +1.56% and +2.21% respectively (see below for year-to-date returns).

APRIL THOUGHTS

The global markets continue to rotate around macroeconomic drivers relating to cyclical recovery, inflation and rising interest rates; fiscal and monetary stimulus; and hopes for a return to normalcy amid Covid-19 vaccination programmes, virus mutations, new infections and further lockdowns. In this environment, we have kept trading activity in the Funds to a minimum, as overall we are very confident with our current positioning.

This month, I would like to reflect on a question that Fund Managers sometimes get asked: "What are the best and worst investment decisions you have made?"

My Fund Manager career, which started in 1999, covers many good investment decisions along the way, but also a few that one would rather forget. Nevertheless, it is important to also learn from one's mistakes, and not to repeat them. Investing requires patience, humility and self-reflection.

Instead of just naming a few individual investments, it may be more useful to think about the general characteristics of what make for good or bad investments. What have I learned over the years?

SOME CHARACTERISTICS OF GOOD INVESTMENTS

In my experience, the best decisions all have some of the following characteristics:

- 1) Outstanding profitability, structural growth and relatively low risk combined with a reasonable valuation.
- 2) Quality businesses with sensible management teams, strong financial positions with products or services that are highly regarded by their clients. You never go wrong with quality!

3) Intellectual Property – a company that innovates will 'go places' and you as an investor will share in their success.

In terms of regions, the US and Japanese equity markets have been superior hunting grounds and sources of strong returns for me. Valuations may change over time, but the wide choice of sectors and the sheer number of investment opportunities in these markets tend to provide better than average ideas for potential investment. Companies in the US are usually shareholder-friendly and transparent in communications with investors. Japan has generally been a little behind in these areas but is catching up and there are individual examples of excellence there as well.

SOME CHARACTERISTICS OF POOR INVESTMENTS

No investor is comfortable talking about poor investment decisions. It is bad when that happens with one's own money, much worse if it happens when managing other people's money. No matter how carefully professional investors try to manage risks and choose wisely, we also make mistakes. Never intentionally. Yet, apologies are due on occasion nonetheless.

Here are some characteristics that are associated with higher risks for weak investment decisions, with the hope that these observations help in avoiding repeated mistakes:

1) Lack of conviction. This is not to say that one has to fall in love with a stock to invest. To give an example, I have had some doubts about investing in the UK equity markets in recent years. Yet, given that it is our home market, valuations are low, and UK stocks have underperformed on a relative basis for some time, then, despite some nagging doubts, one starts to say: "surely, this should change..." But progress here has been slow and disappointing. To be fair, we have also found some excellent individual UK stocks along the way, but overall, it has been challenging to find full conviction.

2) "This time is different". Value investing has been out of favour for many years. This is not to say that value stocks should be avoided altogether. It is true that some deep value stocks can deliver significant gains (but equally you may lose a lot). Turn-around stories can turn into value-traps, so if you

really want to go there, do remember it might take much patience and a good bit of courage.

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 31 MARCH 2021

	YTD	2020	2019	2018	2017	2016
Close Conservative Portfolio Fund	0.9%	3.0%	12.5%	-2.7%	9.0%	5.4%
IA 20-60% Shares	0.9%	3.5%	11.8%	-5.1%	7.2%	10.3%
Close Balanced Portfolio Fund	1.5%	2.4%	17.1%	-2.9%	11.8%	6.3%
IA 40-85% Shares	1.6%	5.3%	15.8%	-6.1%	10.0%	12.9%
Close Growth Portfolio Fund	1.6%	5.4%	21.9%	-3.4%	12.5%	6.8%
IA Flexible Investment	2.2%	6.7%	15.7%	-6.7%	11.2%	13.8%

SOURCE:

FE Analytics 06.04.2021; 2021 (YTD) data as at 31.03.2021; fund performance is total return net of fees with dividends reinvested for X Acc share class.

IMPORTANT INFORMATION

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