

Close Sustainable Balanced Portfolio Fund

Monthly fund manager update

MARCH 2021



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MONTH IN FOCUS

The Close Sustainable Balanced Portfolio Fund returned +2.15% in March. This compared favourably to the Investment Association 40%-85% Shares sector, which was up +1.60% over the month. The year-to-date return for the Fund stands at -0.10% to the end of March.

IMPORTANT MILESTONE REACHED

As we have noted in previous updates, the fact that the Fund is in its infancy brings certain challenges when looking to invest in directly, and this has meant that we have had to make use of collectives in certain circumstances. However, we are now pleased to report that the Fund is of a sufficient size to facilitate the switching out of fixed income collectives into direct bonds. Unlike equities, fixed income securities often have minimum trade volumes, typically 100,000, so we have had no choice but to hold a basket of fixed income collectives since launch in order to fulfil the desired asset allocation as a 'Balanced' fund within the IA 40%-85% Shares sector. Being able to switch into directly held bonds brings two key benefits: (1) we can target duration more precisely – indeed, duration has been lowered from c.7 years to c.4 years with a slight pick-up in yield from 0.9% to 1.1%. (2) we avoid having to pay fees on the collectives which reduces the OCF of the fund.

We continue to see a very positive trend in terms of inflows, so thank you all once again for your support thus far.

TRADING ACTIVITY

Buys

Howdens Joinery (MSCI ESG rating 'AAA'):

- Howdens is the UK's largest kitchen supplier, providing one in three new kitchens. Howdens only supplies the trade channel, offering each builder a personalised discount. This limits price searching relative to the retail channel and helps pricing in the industry to stay rational. The company is vertically integrated therefore allowing it to operate an 'always in stock' model, which is highly desired by builders given that 'time is money'.
- Serving the trade channel means depots can be located at the edge-of-town where lease costs are low. This

largely explains why Howdens' operating margin of 15% is twice the level of its peers, as is compensation per employee on average.

- The backdrop for home improvements has strengthened given (1) consumers being forced to stay at home due to lockdowns, with many likely to be working from home at least partially long term and (2) elevated household savings ratios (16.9% as at September-end 2020). Google Trends data shows that the search terms 'kitchen', 'new kitchen' and 'Howdens' are at or near 6-year highs as homeowners are evaluating their living spaces.
- Approximately 25% of Howdens' depots are young (under 7 years old) meaning the depot maturity curve will support high growth rates and profitability through time. The company has also identified France as a key target for international expansion, citing similarities to the UK market in the 1990s.
- MSCI ESG rating 'AAA', with 'health & safety', 'governance' and 'raw material sourcing' contributing positively to the score. Howdens engages with international sustainability initiatives, such as the Forest Stewardship Council and the Timber Trade Federation.

London Stock Exchange Group (MSCI ESG rating 'AA'):

- London Stock Exchange Group (LSE) is the UK's primary stock exchange, facilitating the trading of securities and raising of capital, among other services. LSE is acquiring Refinitiv – a global provider of financial market data and infrastructure – to significantly enhance its positioning in data and analytics.
- FY20 results announced in March were in line with consensus, but LSE guided for higher costs in 2021 as a result of integrating the Refinitiv acquisition. Consensus earnings per share (EPS) estimates for the year have therefore been cut by 10-15% to reflect this, but the share price fell by over 20% on the news.
- We believe that this impact is likely to be transitory. Management reiterated their longer-term guidance of 5-

- 7% revenue growth through 2023, and a 50% adjusted EBITDA margin over the medium term.
- The Fund therefore took a starter position in LSE as we believe the risk/reward trade-off is favourable at these levels.
 - MSCI ESG rating 'AA'. LSE listed more than \$14bn in new sustainable bonds in 2019, contributing to an increase in its green, social, and sustainable bonds to 215 in 2019, from 174 a year prior. It also listed 79 new ESG ETFs on its markets in 2019, helping it reinforce its growth potential in green financing relative to peers.

IMPORTANT INFORMATION

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