Close Diversified Income Portfolio Fund

Monthly fund manager update

APRIL 2021

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PERFORMANCE

The Close Diversified Income Portfolio Fund rose +3.1% in April (its 7th best month ever). This compared favourably to the IA Mixed Investment 20-60% Shares Sector, which was up +2.2%.

Stock markets ended April in very strong positive territory. The US equity market rose 5.3% (5% in GBP terms), European equities rose 1.4% (3.6% in GBP terms) and UK equites were up 3.8%. There were some particularly strong performances from a number of the equity holdings in the Fund, with the likes of litigation finance company, Burford Capital, up +53% (two case wins reported in the press); Diploma Plc +13%; CVS Group +12% (upgraded earnings guidance again); Lancashire Holdings +10% (strong Q1 growth); Clinigen +10% and Visa +10% (Q1 update). Recent addition to the fund, Unilever, announced a strong set of Q1 results and announced a share buyback, which helped the shares rise +4% in month. Nestle delivered Q1 results in April as well, which analysts variously described as, "*blow out*", "*wow*", "*a handsome beat*" and "*very strong*", as they saw sales grow 7.7% (the share price rose +5.6% in GBP terms over the month). Philip Morris, a stock in which we recently increased our holding, upgraded its forward guidance when announcing Q1 results, which saw the shares rise 7% over April.

The 10-year gilt yield fell by a jot, from 0.85% to 0.84%. Corporate bond spreads benefited from the risk-on tone of the market. BBB spreads fell to 1.31% from 1.38%, whilst the riskier BB spreads tightened to 2.58% from 2.69%. Bond spreads remain well below the long-term averages of 2.13% for BBB and 4.32% for BB. The Fund still holds no in Gilts at present, preferring instead to hold all of our fixed income exposure in corporate bonds. Given the persistently high valuations in the bond space, the overall weighting to bonds remains at an all-time low of 35% - though our stock picking nature helps ensure that the bonds which remain generate a higher yield than the market (3.3% vs 2.15% for 10 year BBB bonds) and have a shorter maturity profile (4.1 years' duration). This has been aided by recent purchases (see March's commentary for news of the Lancashire Holdings bond yielding 5.625%, Paragon bond yielding 4.375% and Burford Capital bond yielding 6.25%).

With stock markets so strong Diversified Income would usually be expected to underperform the IA sector, but this month the Fund benefited from some good stock specific news, while it was also able to recapture some of the lost performance in the investment trust space. As regular readers will know, we have previously commented on the fact that the Fund suffered c.4.8% of 'lost performance' (on paper) last year due to the investment trusts trading at discounts.

Some of this was recouped in April. AEW REIT (shares +11%) reported a positive Net Asset Value (NAV) movement for Q1 on the back of its warehouse assets being revalued up 5.8%. Ediston REIT increased its dividend from a rate of 4p to 5p, after cutting it in 2020 when the pandemic hit, while Tritax Eurobox (one of our largest alternatives positions) rose 14% on expectation of a strong NAV in May.

After last month's commentary noted just how out of favour Starwood European Real Estate Finance was versus its US peer, it posted a strong performance in April, with the shares rising 7%.

It was also pleasing to see Greencoat UK Wind (another sizeable alternatives position which was also mentioned in March) rise 5% over the month. This puts the share price back above its placing price of 131p, at which we materially increased our position not so long ago.

GCP Asset Backed Income (+9% in the month) included a chart within their results announcement which demonstrated the vast difference in the volatility of the share price compared to the minimal movements in the NAV per share experienced during the pandemic. The shares are now almost back to trading at NAV, but historically they have consistently traded at a premium, so there could be more improvement to come.

There is now 1.9% of performance tied up in the investment trust positions trading at discounts to NAV – down from as much as 4.8% back in October.

Gold, which is a material weighting in the fund, also recouped some of its 2021 losses, rising 3.5% over the month (3.2% in

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GBP terms). Unconfirmed reports suggest that the Chinese government materially increased its gold purchases in March.

PORTFOLIO ACTIVITY

April was a much quieter month for the Fund in terms of trading activity. After the three new bonds added last month, there was nothing in April that caught the eye in terms of the new issuance bond market.

BBGI Global Infrastructure was top-sliced after reaching a record high and the position in GCP Student Living was also scaled back after briefly bouncing to a premium to NAV on ETF buying. The Fund continued to increase its position in Unilever, both before and after its Q1 results.

YIELD

The Fund's yield (based on end of month prices) fell to 3.6% from 3.8% due to the sharp rise in its NAV over April. The cash weighting reduced to 9.9%. Having cash gives optionality and will be invested in new ideas as they are identified, or when any market pull back makes valuations in general more attractive. The yield on the Fund is the result of all the individually picked attractive risk / reward ideas.

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OUTLOOK

The Fund remains diversified by asset class, geography and sector with the purpose of generating attractive risk adjusted returns for clients. We will continue to tilt the portfolio away from areas and ideas which have become more expensive (they offer lower forward-looking returns) and continue to use our Quant Model to focus research efforts on those areas and ideas showing better value.

It was interesting to note that two sizeable hedge funds collapsed in Q1, despite a rising equity market and without any real economic shock. The common denominator was leverage. Investors are also using historically high levels of margin debt to leverage their exposure to these rising markets. The equities we added to recently - Philip Morris and Unilever - both have fairly low leverage which makes them more robust and also less exposed to rising interest rates. The debate remains on how far market interest rates will rise, but it was perhaps significant to see a sell-side equity analyst put through a price target reduction this month on the back of rising sovereign debt yields. We continue to watch this very carefully.

CLOSE DIVERSIFIED INCOME PORTFOLIO FUND PERFORMANCE AS AT 30 APRIL 2021

	YTD	2020	2019	2018	2017	2016
Close Diversified Income Portfolio Fund	**3.5%**	**1.4%**	**9.8%**	**-1.8%**	**5.4%**	**7.8%**
IA Mixed Investment 20-60% shares	3.0%	3.5%	11.8%	-5.1%	7.2%	10.3%

SOURCE:

FE Analytics 04.05.2021; YTD data as at 30.04.2021. Performance is total return, net income reinvested after fees, X Acc share class.