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Close Sustainable Balanced Portfolio Fund

Monthly fund manager update

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MONTH IN FOCUS

The Close Sustainable Balanced Portfolio Fund returned +2.59% in April. In comparison, the Investment Association 40%-85% Shares sector was up +3.08%. The year-to-end of April return for the Fund stands at +2.49%.

ANOTHER MILESTONE REACHED

The fund has now been up and running for six months and has reached more than GBP 20million of net inflows in that time. Thank you once again to everyone for your support.

THE FUND'S FIRST SIX MONHTS: ROTATION / REFLATION

In Q4 2020, despite COVID-19 cases spiking and continued mobility restrictions, positive vaccine readouts drove a risk-on rally which continued into the first quarter of 2021. The prospect of a strong economic recovery has led to increasing concerns of inflationary pressure, driving bond yields higher and leading to one of the sharpest equity market rotations on record. One needs only to look at global sector returns prior to the Fund's launch (31/12/2019 to 02/11/2020) and post-launch (02/11/2020 to April 2021) to see why ESG/sustainable strategies performed strongly in 2020 (at least until vaccine readouts started on 9th November), and the sharp reversal thereafter.

The worst performing sector pre-launch was energy (-49%), with fossil fuels largely excluded from ESG/sustainable funds. At the other end of the scale, the best performing sector was information technology (+20%), with COVID-19 being viewed as a catalyst for increasing dependency on technology (working from home, e-commerce, etc.). Furthermore, considering healthcare was the 4th best performing sector pre-launch, the 'natural' sector under- and overweights in ESG/sustainable investing worked very well for these mandates. However, following positive vaccine read-outs starting 9th November 2020, this trend began to unwind. The global energy sector since fund launch has returned +67%, with information technology and healthcare returning +25% (7th best of 11 sectors) and +16% (9th best) respectively.

Arguably the most striking performance differential has been that of oil & gas and clean energy equities (using the iShares Global Clean Energy ETF as a proxy for the latter). Clean energy equities enjoyed a very strong run pre-launch, up +69% from the start of 2020. As well as benefiting from increased investor appetite for ESG investing, these securities are considered to be very long duration in the sense that many constituent companies are early-stage and often loss-making businesses, meaning that they benefited from the collapse in yields as a result of COVID-19 uncertainty. Since launch, with long duration assets falling out of favour in a rising yield environment, clean energy equities have returned only +9% vs the global equity market returning +28%.

In these conditions, ESG/sustainable funds have generally underperformed since our launch date. Over the past 6 months, 8 out of the 11 ESG/sustainable funds in the sector (73%) ranked in the 4th quartile, with one fund in each of the other 3 quartiles. The data is similar over 3 months, with 8 of 13 funds (62%) scoring 4th quartile, and 11 of 13 (85%) scoring either 3rd or 4th quartile.

We view this situation as simply the 'losers' rebounding strongly after suffering heavy losses in 2020, underlined by fears of higher inflation. We do not see the future demand for ESG assets weakening in this environment and, if inflation does indeed prove to be transitory as we expect, the sectors where ESG funds have 'natural' overweights should once against perform strongly.

CURRENCY

The Fund does not adopt a currency hedging policy. This negatively impacted relative performance given sterling strength since launch. The pound is generally considered to be a cyclical currency, which combined with the UK's relatively quick vaccine rollout, has led to broad appreciation against other currencies. To approximate the impact, the Fund (with a 50% currency hedging mitigation policy) benefited from a +1.4% hedging contribution to performance from the end of October 2020 through to 30th April 2021.

NEW FUND / CASH DRAG

The Fund was seeded with a relatively small sum and has now grown to over GBP 20million as noted above. Strong inflows into a small fund inevitably created a cash drag, with equity markets rising sharply over the period. November

Close Brothers
Asset Management

2020, the month of launch, was in fact the strongest month for the UK large cap market since 1989. Despite all the early teething problems that most new funds face, we are very pleased with the progress made so far and very much look forward to continuing to grow the fund from here.