

Close Portfolio Funds

Monthly fund manager update

JULY 2021



RIITTA HUJANEN
Managing Director

MONTH IN REVIEW

The Close Portfolio Funds all delivered another month of positive returns in July, continuing the positive trend enjoyed since March. The Conservative Fund returned +1.5%, the Balanced Fund added +2.0% and the Growth Fund returned +2.9%. These returns represented significant outperformance of the respective peer groups within the Investment Association (IA) sectors; the IA Mixed Investment 20-60% Shares returned 0.6%, the IA Mixed Investment 40-85% Shares returned 0.5%, while the IA Flexible sector growth just 0.2%.

All three funds remain ahead of their respective sectors on a year-to-date (YTD) basis.

JULY THOUGHTS

As we proceed through the year with positive returns in all strategies (as outlined as a projection in my January commentary), the holiday season in August may provide a good moment to reflect on sustainable and responsible investing.

You may be aware that the Close Portfolio Funds all currently enjoy positive Environmental, Social and Governance (ESG) ratings in their own right. In reality, however, this is really just a 'nice to know' or a 'nice to have' as the funds are, of course, not specifically designed to follow sustainable or ESG strategies, and we are certainly not making such claims about them. For clients wishing to invest in a specific ESG mandate we offer the dedicated Close Sustainable Balanced Portfolio Fund, with a clearly defined sustainable investment policy. However, in line with the Funds' unofficial designation that 2021 would be the "Year of Charity", here are some more personal views which have arisen from my involvement in sustainable / ESG investing over more than 20 years.

- In my view, sustainability and responsibility will become mainstream, a standard consideration included in any investment decision, just like 'risk' and 'return' are today.
- Ethical investing is about values. It is therefore important to search and research for propositions that are best aligned with one's personal values. It is a useful exercise to reflect on what is important for us in life and when investing.

- In my view, ESG investing is about being humble, yet ambitious; recognising that nobody is perfect, but also that we all can be better. Our 'values assessment' helps us to define what 'better' looks like.
- There is sometimes a tendency to be overly critical or judgemental: we can be eagle eyed on the errors of others, but blind as bat with regard to our own faults. While striving for better and for truth, mercy and charity is also needed.
- Not being overly- judgemental of others while seeking to positively effect change helps us and companies to become what we are meant to be.

CORPORATE INSPIRATION

Positive examples can serve as powerful inspiration for others. Among the funds' current holdings, I think the following are of particular note:

3i Group: a clear leader among peers in integrating ESG principles in its private equity investments. It exhibits strong ESG risk assessment in the investing process, from screening through due diligence and exit, which is particularly important given the relatively long duration of private equity portfolio.

Microsoft: The company's substantial Research and Development (R&D) capability (R&D/sales ratio was ~15% in 2020), and its involvement and strategic focus in several clean technology fields, may position it well for low-carbon-economy opportunities.

Novartis: On the aggregate, its R&D and product portfolio address access to healthcare needs in underserved markets. Furthermore, it has adopted some industry-leading programs, such as equitable pricing, to improve access needs in resource-constrained settings.

While, as previously mentioned, the Close Portfolio Funds are not mandated to adhere to specific sustainability metrics, it is heartening to see a number of holdings providing positive examples to their peers, while still stacking up as strong individual investment cases.

Source: MSCI ESG Research

IMPORTANT INFORMATION

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