

Close Diversified Income Portfolio Fund

Monthly fund manager update

OCTOBER 2021



STEPHEN HAYDE
Managing Director

PERFORMANCE

The Close Diversified Income Fund's performance was flat in October, versus +0.6% for the IA 20-60%.

Within equity markets the US rose a stellar 6.9% (+5.3% in sterling terms), European equities rose 5% (+3.3% in sterling terms) and the UK rose 2.1%, though mid-caps were up only +0.3%. Overall, international equities were the clear standout asset class over the month.

Turning to the alternatives, gold rose 3.2% (+1.6% in sterling terms). Whilst other alternative holdings delivered mixed performance outcomes, the general news flow was positive for a number of sectors. Greencoat UK Wind announced their September Net Asset Values (NAV), which showed a +4.5% total return for the quarter, with the high electricity price more than offsetting low wind speeds. GCP Infrastructure posted a +3.4% total return for Q3, whilst AEW UK REIT posted a +4.6% total return for the same period. AEW stated that industrial properties have risen in value +14.5% since March, which was particularly pleasing as our industrial warehouse REIT holdings have yet to update the market since their March NAVs were confirmed, suggesting there could be some large rises to come through. Ediston REIT (retail warehouses) saw a NAV total return of +4.2% for Q3, as sentiment towards the sector turns - AEW are also buying into the sector as they see good risk / reward investment opportunities.

Within the fixed income space, the 10-year gilt yield rose slightly to 1.03% from 1.02%. Corporate bond BBB spreads also rose marginally, increasing to 1.29% from 1.26%, whilst riskier BB (High Yield) spreads went from 2.50% to 2.63%. Bond spreads remain well below the long-term averages of 2.13% for BBB and 4.32% for BB. The Fund still has no gilt positions, and the bond exposure is all in corporate bonds. The bond allocation within the fund has a yield of 3.6% and 4.2 years of duration. We remain short duration and have 12.2% cash (zero duration) after selling a number of bonds positions

earlier in the year. The overall weighting to bonds is 32.5%, which is the lowest it has ever been.

PORTFOLIO ACTIVITY

I sold the remainder of the Fund's holding in BBGI Global Infrastructure. This is a position we have held for many years and it has been a great performer. However, as a result of the large premium to NAV that the stock now trades on, the forward-looking expected return is very low and a lot lower compared to the annual returns we have received in the past. The proceeds will be reinvested into a new position in the alternatives space earmarked for a November Initial Public Offering (IPO). The Supermarket Income REIT position was added to in their placing during the month at a below market price of 115p.

YIELD

The Fund's yield (based on end of month prices) rose slightly to 3.7% from 3.6% despite rising cash levels. As mentioned last month, an index-linked bond position displaying a negative yield (before adding on the inflation element of the return) matured in October, so that maturity actually helped increase the indicated yield of the Fund. As noted, the cash weighting rose to 12.2% from 11.3%. The yield on the Fund is the result of all the individually picked attractive risk / reward ideas.

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 that are more expensive (lower forward-looking returns) and continue to use our Quant Model to focus research efforts on those areas and ideas displaying better potential value. As alluded to above, we fully expect to deploy some of the fund's cash in the month ahead in a new IPO.

IMPORTANT INFORMATION

This document is only intended for use by UK investment professionals and should not be distributed to or relied upon by retail clients. The value of investments will go up and down and clients may get back less money than they invested. Past performance is not a reliable indicator of future returns. The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of Close Brothers Group plc, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86. CBAM5423