Close Diversified Income Portfolio Fund

Monthly fund manager update

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PERFORMANCE

The Close Diversified Income Fund's performance was broadly flat in October, falling very marginally -0.1% versus +0.0% for the Investment Association 20-60% Shares (IA) Sector. On a year-to-date basis, the Fund has returned 6.3% to the end of November, which compares favourably to the IA Sector return of 5.9%.

In a similar vein to last month, US equities once again led the way, shaking off concerns of the latest Covid variant, to post a positive return. Over the month the US market was up 4.2% in sterling terms which compares to the UK market (-2.5%), and European market (-3.5% in sterling terms).

Within the alternatives space, gold was a standout performer over the month rising 2.5% in sterling terms. Whilst the other holdings were mixed, the Net Asset Value (NAV) updates were again very positive. Warehouse REIT and Urban Logistics both posted their September NAVs and showed that they had made a total return of 15.1% and 10.7% respectively in the 6-month period. ICG Longbow reported the repayment of further loans, which will lead to another cash distribution in the near term as the company continues to wind itself up.

One large detractor in the month was Greencoat UK Wind. The company announced a placing which saw the biggest holding in the Fund fall 5.8%, as the shares were priced at 132p (a discount to the end of October price). We took the opportunity to increase our position, as we are of the opinion that the shares were being issued quite cheaply. With the electricity price continuing to be >£200 per MW/hour, the company will be currently making much higher than modelled returns. We look forward to their next update in January, and expect the shares to rebound - as typically happens to investment trusts post a placing.

Within fixed income markets, the 10-year gilt yield fell to 0.81% from 1.03%, as risk aversion from Covid trumped any inflationary fears. Investment Grade Corporate bond (BBB) spreads rose from 1.29% to 1.41%, whilst riskier BB spreads went from 2.63% to 3.04%, in sympathy with falling equity markets. Bond spreads remain well below the long-term averages of 2.13% for BBB and 4.32% for BB. The Fund still has no exposure to Gilts, and hence the bond allocation is all in corporate bonds. The bond portfolio has a yield of 3.8% and 4.2 years of duration. We remain short duration and maintain a 10.9% cash position (essentially Zero duration) after selling many bonds earlier in the year. The weighting to bonds is 33%, close to historical lows.

PORTFOLIO ACTIVITY

In the bond section of the portfolio, we added to the Trafigura Perpetual bond (callable in 2027) at yields of 5.6%, IPF 2025 at a 6.3% yield, and the Jupiter 2030 bond (callable in 2025) at yields of up to 3.2%. These were predominantly funded by reducing the positions in Phoenix 2025 at a yield of 2.1% and TP ICAP 2024. The company tendered for this bond at a yield of just 1.33%, so we were happy to sell all the bonds that they wanted to accept.

In the alternatives section, a new holding in Atrato Onsite Energy was bought in their Initial Public Offering (IPO). This is a new investment trust which has been set up to install rooftop solar generation on the tops of supermarkets and logistics warehouses. We managed to secure a 2% position, making it a top 10 alternatives position in the Fund, in what was a highly sought after new issue. This was reflected in the share price rise of 8% in the first couple of days of trading. This benefitted fund performance in November by 0.16%. Over the years the Fund has participated in many new issues and many placings by renewable companies (two this month alone) providing <u>new</u> capital to help the green economy roll out solar farms, wind farms and now rooftop solar installations.

YIELD

Diversified Income's yield (based on end of month prices) rose slightly to 3.8% from 3.7%, helped by the addition of Atrato Onsite Energy (5% yielder) and the bond switches. The cash weighting fell to 10.9% from 12.2%. 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 that are more expensive (lower forward-looking returns) and continue to use our Quant Model to focus research efforts on those areas and ideas with greater value.