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Close Portfolio Funds

Monthly fund manager update

NOVEMBER 2021

GILES PARKINSON
Managing Director

MONTH IN REVIEW

The Close Portfolio Funds all delivered strong positive returns in November versus their respective Investment Association peer groups (in brackets): Conservative added +0.55% (-0.01%), Balanced +0.83% (0.25%) and Growth +1.34% (0.06%).

NOVEMBER THOUGHTS

The Close Portfolio Funds pursue a fundamental stock-selection approach in a multi-asset context. We invest in 'cheap durables' – predictable and sustainable companies acquired at attractive cash-based valuations – in combination with diversifying non-equity securities in order to achieve client volatility outcomes.

The core of the 32 direct equities in the portfolio inherited from previous manager Riitta Hujanen* comprised what may be loosely termed 'quality' or 'Growth At Reasonable Price' stocks. Examples include Alphabet (better known as Google) and Microsoft. These constituted a majority of the stock portfolio; all of the previous top ten (by weight) equity holdings are being retained, plus four others.

Eighteen stocks, however, are of a different nature and will not be retained. This minority tail is in the process of being sold through a passive dealing strategy intended to minimise the market impact of our activity. We estimate our explicit cost of dealing – comprising broker commission, bid/offer spread, and stamp duty – to be a single-digit basis point for all three Funds. These incurred costs are certain, but what of the returns?

From the manager changeover on 5 November to the end of the month the MSCI All Countries World Index (a regional yardstick of global large-cap stocks) fell by -3.9% in USD terms. The median performance from the 14 retained equity holdings was -2.2%, with 9 beating the market. Of the 18 ear-marked for sale 13 underperformed, with a median return of -7.2%. And of the 17 stocks identified to replace them, the median return was -0.2% with 14 doing better than the market averages. All told, 23 out of our 31 stocks beat the market, a 'hit rate' of 74% during a period when only 48% of stocks in the index did better than the index average. (Stock-picking is typically a harder than 50/50 enterprise because most companies don't beat the market).

We are particularly pleased that our holdings were resilient during a downdraft for the equity market as this is a crucial aspect of our portfolio construction. However, defying the odds to this extent cannot be expected to persist, as there is always an unavoidable element of randomness to the sequence of returns.

Stepping back, the broad shape of the asset allocation is unchanged, specifically the small overweight to equities, and the short duration position in fixed income.

UPDATE / FOOTNOTES

*Giles Parkinson succeeded Riitta Hujanen as the manager of the CPF range on 5 November 2021.