Close Brothers Asset Management

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Close Portfolio Funds

Monthly fund manager update

DECEMBER 2021

GILES PARKINSON
Managing Director

STRATEGY OVERVIEW

The Close Portfolio Funds aim to achieve resilient returns over the long term through an equity-led approach to investing in a multi-asset context. The Funds seek to acquire ‘cheap durables’ – direct interests in predictable and sustainable businesses purchased at attractive cash-based valuations.

MONTHLY PERFORMANCE

The Close Portfolio Funds all delivered positive returns in December and outperformed their respective Investment Association peer groups (in brackets): Conservative added +1.3% (1.3%), Balanced +2.2% (1.5%) and Growth +3.0% (1.4%).

Since inception the Funds have increased by an annualised 5.5% (5.2%), 7.4% (7.0%), 8.9% (7.1%) with up-market capture ratios of 108%, 105% and 111% across Conservative, Balanced and Growth respectively.

MONTH IN REVIEW

Equities rose 2.0% over the month as markets recovered from the swoon at the end of November, and this proved more than enough to offset an appreciation in Sterling. Bonds fell slightly in sympathy with the ‘risk-on’ tone. Our stocks outperformed the market substantially, with the top three contributors being Accenture, UnitedHealth, and Zoetis; the lowest returning holdings were Adobe, Hoya and Partners Group.

DECEMBER THOUGHTS: COMPOUNDING THE EIGTH WONDER

As noted, the Portfolio Funds apply an equity-led approach to investing in a multi-asset context by acquiring ‘cheap durables’ – direct interests in predictable and sustainable businesses purchased at attractive cash-based valuations.

There are three benefits to this approach. The first is that stock selection creates a potential source of outperformance. Curating a portfolio unconstrained by official sector classifications or where stocks happen to be listed creates equity exposure unlike any index and statistically guarantees a different outcome. Our sincere belief is that our investment process entails an edge such that on average these outcomes may more likely be good than bad over time – what we cannot know is by how much or when. Illustratively, compounding £1,000 at 8% for forty years results in £21,725 but achieving 10% over the same period means returns more than double that amount, *viz*. the power of compound interest.

The second advantage to investing through direct securities is the cost-efficient nature of large-cap shares. Spreads are tight, volumes are deep, and there are no third-party fees to pay away, making the expense of ownership negligible once you’re past the initial stamp duty. All else being equal, this means that the investment returns from our ‘cheap durables’ – typically, companies with positive cashflow and competitive advantages, offered at reasonable starting free cash flow yields – are unburdened by ongoing headwinds. Illustratively, incurring charges of 1% on an 8% return for forty years delivers a final amount that is almost a third smaller. Small differences add up.

The final strength to holding equities directly is that it opens the possibility of embedding sustainability by integrating ESG considerations into valuation and authentic ownership through active engagement. As long-term owners of businesses we have not just the ability, but also the duty, to hold capitalism to account by building a proactive and value-enhancing dialogue with management teams for the benefit of all stakeholders. This helps the wallet as well as the heart. Identifying – and quantifying – the positive and negative externalities associated with a business theoretically supports a superior assessment of the future cashflows, allowing us to value companies more effectively.

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

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