For professional adviser use only.
Not for distribution to retail clients.

Close Portfolio Funds

Monthly fund manager update

JANUARY 2022

GILES PARKINSON
Managing Director

STRATEGY OVERVIEW

The Close Portfolio Funds seek to achieve resilient returns over the long term through an equity-led approach to investing in a multi-asset context. Our strategy of acquiring companies we consider ‘cheap durables’ – direct interests in predictable and sustainable businesses purchased at attractive cash-based valuations – is complimented by allocations across fixed income and alternatives as appropriate.

MONTHLY PERFORMANCE

January proved to be a very challenging month, with each Fund delivering negative returns and underperforming their respective Investment Association (IA) peer groups over the period: Conservative fell -5.8% (vs IA -3.1%), Balanced -7.7% (vs IA -4.7%) and Growth -9.8% (vs IA -4.8%).

Long term performance of the funds remains strong and it is important not to focus too heavily on very short periods of underperformance. Since inception the Funds have increased by an annualised 4.9% (4.8%), 6.6% (6.5%), 7.8% (6.6%) across Conservative, Balanced and Growth respectively.

MONTH IN REVIEW

UK Bonds fell -3.7% in January (ICE Bank of America Sterling Broad Market Index), as markets started to price for higher interest rates. Global equity markets also reversed course with the MSCI All Country World Index falling -4.6%, which includes a 1.5% afternoon rally, not accounted for in fund valuations, as funds are valued based on midday pricing. After substantial outperformance in November and December our stocks underperformed in January for reasons discussed further below. The top three contributors were Visa, Oriental Land, and AIA; while the biggest detractors were Zoetis, Partners Group and Accenture.

DECEMBER THOUGHTS: A GLITCH IN TIME

The business cycle in America is slowing at a time when the Federal Reserve is moving more ‘hawkish’ and seeking to tighten monetary policy. Historically this combination has been a difficult backdrop for markets, and it is the reason why we began to consider a more defensive position towards the end of last year, gently reducing ‘equity-like’ risk within the portfolio. This included refraining from reinvesting the proceeds from maturing corporate bonds into new issues, which might demonstrate a higher correlation to equities compared with government bonds. We also sold our small position in industrial commodities given their cyclical nature and higher volatility profile. These trades also allowed us to build up the cash levels across funds as ‘dry powder’.

Within the equity component of the portfolios, we tilted in favour of companies with resilient revenue streams and exposure to structural rather than cyclical sources of growth; Microsoft is a good example (in which we have a large position). During November and December the market rewarded our more cautious stance as the economic data continued to show a decelerating growth trend and we maintained our defensive positioning coming into the year. In early January, however, the market underwent a sudden change of mind, abruptly switching to favour the most economically sensitive stocks - such as banks - which in our view do best in the foothills of an economic recovery. We did not believe this was justified, and responded by reducing our risk positioning further. While the funds currently have a slight overweight to equities, albeit favouring more durable companies, this risk is bar-belled by an overweight allocation to more defensive asset classes; UK Gilts and cash, bringing the overall risk of the portfolio down.

So far this year the major asset classes – equities, bonds, and the major liquid alternative assets like gold and industrial commodities – are all down. Favouring cash and cash-like short-term bonds cushioned the blow somewhat, but against this backdrop it is difficult to preserve capital when all major asset classes fall in unison over a short period of time. That said, we believe that we are positioned appropriately for what lies ahead, and have built increased optionality into the portfolio with which we can take advantage of opportunities as they arise. Specifically, our high cash weighting can be used to buy equities and corporate bonds should markets fall further, and we are invested predominantly in the stocks of robust companies that should protect on any further downside. We are not complacent on the broader macroeconomic front either, and stand ready to move into more cyclical industries when the business cycle turns upwards.

Tentative signs indicating our stance is correct began to appear towards the end of the month, with the bond market starting to re-acknowledge our cyclical growth concerns, whilst defensive equities took note and responded favourably.

LOOKING AHEAD

Central banks are tilting hawkish against inflation just at the point when global growth is slowing. As long as both factors remain in evidence we will tread carefully.

As a long-term strategy with low turnover we recommend that unitholders judge our performance over a period of five years or more.

.