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Close Managed Funds

Monthly fund manager update

FEBRUARY 2022

MANAGED FUNDS TEAM

MONTH IN FOCUS

Unsurprisingly considering the challenging macro backdrop, it was a negative month in terms of absolute performance across the Managed Funds range, although both the Conservative and Balanced funds were able to outperform their respective peer groups on a relative basis. Whilst market concerns surrounding inflation rates and the pace of interest rate hikes remain present, these were largely side-lined by the threat of, and subsequent military action, as Russia invaded Ukraine.

THOUGHTS FROM THE TEAM

The UK was the only major equity market in positive territory over the month with a return of +0.8%, largely due to the preponderance of energy and mining exposure within the index. Within the Managed funds, it was a different story, as most of our managers eschew many of these companies (which have generally underperformed other sectors in recent years) and consequently lagged the wider market over the month.

Elsewhere the funds generally had better relative returns. In the US, the wider impact of the Russian invasion of Ukraine was viewed by the market as potentially reducing the speed at which the Federal Reserve might hike interest rates. This resulted in better performance from tech and growth sector stocks. The Baillie Gifford American fund (the poster child for high growth equity) returned -0.3% for February, relative to the index which declined -2.6%.

In Europe, it continued to be a tough market environment, both from an absolute perspective at index level and for active fund managers, although we did get better relative performance from the European Opportunities Trust, which delivered -1.4% against -3.9% for the wider index. There was little comfort to be had from the Asian and emerging market holdings during the month either, with the exception of the Allianz China A Shares fund, which was up +0.5% against the wider emerging market benchmark which fell -2.7%.

It was a difficult month for fixed income, particularly within credit or any part of the market that was related to emerging market debt. The one exception was Chinese government bonds, which we hold via the 1167 China Government Bond fund. We bought this fund at launch across the Managed Fund range because we thought it would offer some differentiated returns from the rest of our fixed income allocation, which has thus far proved to be the case. The fund was up +0.25% during the month and is in positive territory for the year.

From an alternatives perspective it proved to be a largely positive month, as the bulk of our holdings did what we hold them for and delivered returns uncorrelated to the broad equity markets. Although most of the infrastructure funds were slightly negative, our hedge / absolute return fund holdings did well, with the Invenomic US Equity Long Short fund up +2.7% for example. Our commodity exposure meanwhile added +6.5% via the broad commodity tracker we hold across the range, and our gold allocation which averaged around +6.0% for the month.

ACTIVITY

In terms of activity during February, we topped up UK equity exposure, gilts, and broader value, whilst selling the last of the Church House Investment Grade fund and the Trojan Global Income fund within Managed Income. The sale of the latter was undertaken to add the pure US focused First Trust US Equity Income ETF, which has a quantitative yield focus. We believe this will give us better orientation towards yield and value factors compared to the Trojan fund.

Close Brothers Asset Management

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