Close Brothers Asset Management

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Close Sustainable Balanced Portfolio Fund

Monthly fund manager update

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Managing Director

MONTHLY PERFORMANCE

The Close Sustainable Balanced Fund returned -0.9% in February, which compared favourably to the Investment Association 40-85% Sector return of -1.6%. Year-to-date, the Fund has returned -5.3%, 1.0% ahead of the -6.3% returned by the Investment Association 40-85% Sector.

MONTH IN REVIEW

Equity markets continued to sell off in February, driven by Russia's invasion of Ukraine towards the end of the month. This further heightened risk-off sentiment, with significant economic sanctions imposed on Russia by the West in response to the invasion, adding to inflationary fears across all asset classes. As such, fixed income markets offered no 'place to hide' amid the volatility as is sometimes the case, declining -1.6% vs equity market declines of -1.5%.

The Fund does not have any direct exposure to Russian assets, but those equity holdings deriving some of their revenues from Russia were very much under the microscope in February. In the fund this was most heavily felt in the European capital goods space, with Sandvik (-15%) and Atlas Copco (-9%) the worst performing holdings over the month on account of the low single digit revenue exposure they had to Russia. Anglo American was the strongest performer (+18%), benefiting from higher commodity prices, with the silver ETC holding (+9%) within the alternatives space also performing well.

LOOKING AHEAD

With a cash weighting of 14% at the end of February, we are looking for opportunities in light of the lower valuations in equity and corporate bond markets. In particular we are watching for the US Federal Reserve to become less 'hawkish' with respect to interest rate increases, while we are also closely following the unfolding business cycle, looking for stabilisation and any uptick in fortunes. Further significant developments on the geopolitical front, such as regime change in Russia, would swiftly reverse the commodity outlook. Conversely, should a recession be confirmed we would reduce equities further and look to buy longer-duration Gilts in order to protect the portfolio.