Close Diversified Income Portfolio Fund

Monthly fund manager update

APRIL 2022

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PERFORMANCE

Close Diversified Income advanced 0.8% in April (compared to -1.8% for the Investment Association Mixed Investment 20-60% shares sector), taking it to +0.3% year-to-date (YTD) versus -5.1% for the sector).

There are increasing signs of a global slowdown but with inflation still high and rising, central bankers continue to raise rates and signal Quantitative Tightening. In April, the US posted a Q1 GDP decline (putting it half-way to a technical recession), whilst UK consumer confidence fell to just one point above the lowest level recorded since the survey began in 1971 (which was July 2008, during the financial crisis). Chinese lockdowns to contain Covid-19 are leading to a slowdown in the East too and Hong Kong is also half way to recession.

As mentioned in last month's commentary, equity markets had been taking these conditions in their stride, despite our evaluation being one of caution. However, April did see a bit of a sell-off, especially in the US.

During the month, the US equity market shed -8.8% (-4.3% in sterling terms, in brackets), the tech-heavy NASDAQ slumped -13.3% (-8.8%), the UK added +0.4% and Europe slid -2.6% (-3%). The 10-year gilt yield rose from 1.6% to 1.9%. Corporate bonds underperformed sovereign bonds as BBB spreads rose to 1.9% from 1.7% (getting close to their long-term average of 2.1%).

Interestingly the rise in gilt yields has meant that even index-linked gilts (which investors buy for inflation protection) are showing heavy losses in 2022. The 2071 gilt is down 30.1%, and the 2068 index-linked gilt is down 31.4% (both YTD). The Fund still has no Gilts, and hence its bond exposure is all corporate debt. We have warned for years about the poor risk/reward of gilts - virtually no return but huge volatility.

Riskier BB spreads climbed from 3.5% to 3.9% (versus their long-term average of 4.3%). The yield of the bond holdings we own continued to rise from 5.3% to 5.7% and has 3.6 years of duration (down from 3.8 years). We remain short duration and have 10% cash (essentially zero duration). The weighting to bonds has been increased again, to 36.9% from 35.6%, as both April and March started to throw up some interesting risk/reward ideas.

There was plenty of positive news in the Fund in April, helping drive its outperformance. After we had materially up-weighted Schroders at 1710p last month, the company announced that they would be giving the non-voting shares the right to vote. The shares jumped 23% in the month to 2385p (a 44% total return, including dividends, since increasing our position in March).

Greencoat UK Wind, the largest holding in the Fund, announced its March Net Asset Value (NAV) figure, which showed a total return of 13.2% in just three months, driven by the high inflation rate and current high electricity prices. The shares rose 4.9% in April on the news. GCP Infrastructure announced a Q1 total return of 6.8% - driven by the same catalysts. Its shares rose 7% in April.

International Public Partnerships announced a discounted placing at 159.5p. We had previously sold our shares at 171p between January and March 2022. We managed to get a decent amount of new shares in the over-subscribed issue, and immediately sold most of them at 167.5p for a 5% one-day gain (making just over a year's expected return in the process).

AEW UK REIT reported a 7.4% return for Q1 2022 and then announced it had agreed the sale of an office complex at a 90% premium to its last valuation. This will add a further 9% to its NAV if the deal completes. The shares rose 6% in April.

PORTFOLIO ACTIVITY

It was another active month.

We have now increased the Fund's bond weighting by 4% since February after further purchases. In April we:

- Added a new holding in the BHP Billiton Perpetual bond (callable later this year so in effect just 6-month paper) at yields as high as 3.9%. This was trading at a yield of just 0.8% back in Sept' 21.

Close Brothers Asset Management

-Added to Nationwide Perp bonds again, at yields as high as 5.7%. These bonds yielded 2.6% in Sept '21.

-Added to Co-Op 2026 bonds again at a yield of 7.7%. This is almost triple the 2.8% yield they traded at in Sept '21.

-Added to Abrdn Perp bonds at a yield of 5.7%. This bond came to the market in December last year at a yield of 5.25%.

-Added to Travis Perkins 2026 bonds at a 4.2% yield. This is double the yield that they were trading at in Sept '21.

In equities we top-sliced the BHP Billiton position close to £30 per share. Its shares ended the month at £27.25 on global slowdown fears.

In alternatives the main addition, and subsequent sale, was the International Public Partnerships position (as mentioned above).

The Fund's cash weighting fell to 10.1% from 12%.

YIELD

Close Diversified Income's yield (based on end of month prices) rose to 4.5% from 4.3%. This was driven by investing some of its defensive cash position back into the bond market at more attractive yields. The yield on the Fund is the result of all the individually picked attractive risk/reward ideas.

OUTLOOK

The Fund remains diversified by asset class, geography and sector with the aim of generating attractive risk-adjusted returns for clients. We will continue to tilt the portfolio away from areas and ideas that are more expensive (those with lower forward-looking returns) and continue to use our proprietary Quant Model to focus our research efforts on those areas and ideas offering better value. Volatile markets will increase the likelihood of finding more ideas at valuations we consider good risk/reward investments.