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

Close Tactical Select Passive Funds

Monthly fund manager update

DECEMBER 2022

WEIXU YAN
Investment Director

MONTH IN REVIEW

The final month of 2022 was another tough one for investors, with the US equity market the worst performer down over -7% in GBP terms. This was primarily because sterling strengthened against the US dollar while weakening against the euro and the yen. This serves to illustrate the diversification benefits of a broad geographic spread of assets and exposure to different currencies. The month also saw long duration bonds underperforming short duration bonds, and by quite a margin of around 2% in corporates and 3.5% in gilts. The alternatives we own in the funds were positive contributors in December. Gold led the way, and was in fact the best returning asset across the range, returning c. +2.5%.

Overall, the Close Tactical Select Passive range ended a very challenging year with solid relative performance against the respective Investment Association (IA) peer groups. Returns for 2022 vs IA peer groups (in brackets) were as follows: Conservative -9.97% (-9.47%); Balanced -8.79% (-10.04%); Growth -9.37% (-8.98%).

Within equities, the UK market saw both mid- and large-cap companies perform broadly in line in December, with both down approximately -1.4%. US equities were the biggest disappointment, but our latest addition - the SPDR S&P 500 Healthcare Select UCITS ETF - performed well for the month and provided the defensive attributes we were looking for, being down only -0.7%, while our Vanguard S&P Total Market Index fund slid -6.9%. The downturn was in part led by technology stocks, with the Lyxor Nasdaq 100 UCITS ETF down -6.6% for the period. Within tech enabled equities Cyber security was the worst hit, declining -7.4% over the month.

Within fixed income, December saw the year end on a familiar note for 2022: longer duration securities underperforming shorter duration in both gilts and GBP corporate bonds. This meant that the Lyxor Government Gilt UCITS ETF was down -4.0%, while the shorter duration broad gilt ETF, the Lyxor Core UK Government Bond 0-5 UCITS ETF, was only down c.-0.4%. Broad corporate bond exposure, such as that obtained through the HSBC Iboxx Sterling Corporate bond index fund, was down -1.7% for the month, while our 0-5 ETFs in this space were all slightly positive at around +0.4%. Our latest addition of the JPM GBP Ultrashort Income UCITS ETF also did well and returned circa +0.3%.

As alluded to, the physical gold ETCs we own led the way within the alternatives allocation, and were up on average +2.6% - making them the best performing investment for December. This meant they massively outperformed the broad commodities basket which was down -3.9%, however our broad commodities vehicle, the UBS CMCI UCITS ETF, was pleasingly down only -0.6%.

GENERAL POSITIONING

Over the month, we invested cash flows into investments that track broad developed market indices like the FTSE 100 and S&P 500. As Asia is seemingly on a different economic path to the West, we have gone slightly overweight emerging markets within equities, while we have also added to European equities.

From the broad asset class perspective, our fixed income allocation remains marginally underweight versus equities. While we are still overweight corporate bonds relative to government bonds, our duration is now much more bar-belled and has moved towards a neutral position as a result. Within diversifiers the split between broad commodities and gold has been maintained at 50-50.

IMPORTANT INFORMATION

This document is only intended for use by UK investment professionals and should not be distributed to or relied upon by retail clients. The value of investments will go up and down and clients may get back less money than they invested. Past performance is not a reliable indicator of future returns. The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of Close Brothers Group plc, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86. CBAM5426