Close Tactical Select Passive Funds

Monthly fund manager update

FEBRUARY 2023

WEIXU YAN
Investment Director

MONTH IN REVIEW

February proved to be a mixed month for the Close Tactical Select Passive Fund range, with the Conservative strategy posting a negative return, while the Balanced and Growth funds ended the month in positive territory. Pleasingly, all three funds ended the month ahead of their respective Investment Association (IA) peer groups. On a year-to-date (YTD), the selection of ETFs within the funds' equity allocation have added value, while the fixed income allocation have delivered mixed returns. Currency market movements are still having a notable impact, with GBP strengthening against most other major currencies over the month, but weakening a little relative to the USD having strengthened somewhat since the lows reached in late September last year.

As tech and other growth orientated areas of the market continued to rebound in February, our best performing holding throughout the fund range was the L&G Cyber Security UCITS ETF, which was up +3.9% for the month. Following the tech trend, the Lyxor Nasdaq 100 UCITS ETF and Invesco US Tech Sector UCITS ETF were up by +2.1% and +3.0% respectively; both outperforming the broad US market. Regionally; Europe provided some positive returns, but Asia - including Japan and emerging markets - were all negative, with the Amundi MSCI EM UCITS ETF our worst performer for February, down -5.5%.

Our fixed income holding all ended the month in negative territory, with the exception of the JPM GBP Ultrashort Income UCITS ETF, which has a duration of circa 0.2 years. Anything carrying higher duration was penalised, with our inflation linked fund declining close to -5.0%. Thus, a distinct trend from last year was evident once again, with duration playing a big role in February. Aside from the inflation linked exposure, the Lyxor Government Gilt UCITS ETF was down -3.3%, while the shorter duration Lyxor Core UK Government Bond 0-5 UCITS ETF was down -1.0%. Our GBP Corporate bond funds delivered similar returns with full market exposure holdings down c. -3.0% and shorter duration exposure down c. -1.0%

February also proved to be a challenging month for diversifiers, with our physical gold ETCs down close to -3.5%, underperforming broad commodity indices. Our investment exposure to broad commodities, obtained via the UBS CMCI UCITS ETF, fared a little better but was down -2.1%.

GENERAL POSITIONING

Pleasingly, we continue to enjoy good fund inflows across the Close Tactical Select Passive range, which has helped us manage our downside risk. The inflows have meant that we have been able to be more nimble in deploying cash, minimising the trading required.

From the broad asset class perspective, our fixed income allocation remains marginally underweight vs equities, but as bond yields become increasingly attractive we are looking to move to neutral in our fixed income weighting. Within fixed income we remain overweight corporate bonds relative to government bonds, and continue to employ a barbell approach to managing duration. There has been no changes within the funds' allocation to diversifiers.