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Close Portfolio Funds

Monthly fund manager update

MARCH 2023

GILES PARKINSON
Managing Director

STRATEGY OVERVIEW

The Close Portfolio Funds seek to achieve resilient returns over the long-term through an equity-led approach to investing in a multi-asset context. Our strategy of acquiring 'cheap durables' – direct interests in predictable and sustainable businesses that will grow in value and repay their debts purchased at attractive cash-based valuations – is complemented by allocations across fixed income and alternatives as appropriate.

MONTHLY PERFORMANCE REVIEW

March saw weaker economic data which we believe continues to point towards a recession. This caused sterling bonds to rally +2.5% whilst equities enjoyed the alleviation of upward interest rate pressure, rising +1.5% in US dollar terms (although converted to a -0.8% decline for the sterling-based investor as the pound strengthened). We believe the next stage will show that a recession is in evidence, which will cause bonds to rally further while equities may stumble. Each Fund delivered negative returns in the month with Conservative ahead of the Investment Association (IA) 20-60% Shares Sector peer group, Balanced in-line with the IA 40-85% shares Sector, and Growth behind IA Flexible Investment Sector. Asset allocation was positive as we are long duration in fixed income and underweight equities, but this was offset by a negative contribution from stock selection over the month.

MARCH THOUGHTS – GREATER THAN THE PARTS

Our guiding principle is to make as much money as we can as safely as possible by acquiring 'cheap durables' – direct interests in predictable and sustainable businesses that will grow in value and repay their debts. The problem with this strategy is that a good company is only a good investment if it is purchased at a reasonable valuation, and most of the time superior businesses trade on unreasonable valuations. The market is populated by dedicated professional investors and the attractions of the very best companies are readily apparent, resulting in their securities being priced accordingly. The informational and analytical edges that may have existed in the twentieth-century have been largely competed away.

This leaves only the behavioural aspects to investing as a durable competitive advantage, which can be exploited opportunistically when a superior business experiences a temporary problem, or collectively when the broad market experiences a downdraft. Our day-to-day focus is on compounding an understanding of the superior companies which we want to own for the long run, and the price that we would be prepared to pay for them today. Occasionally, with patience, one of them will wobble, and we act. But when they all go down together the task is paradoxically more difficult, because at the very moment when the greatest opportunities abound the existing holdings are likely down just as much as well. Enter, sovereign bonds and gold. When the time comes our belief is that these other asset classes will appreciate in value, not only cushioning returns, but producing cash in the portfolio at precisely the right time to take advantage of the increased opportunity set within high quality equity and corporate credit investments.

LOOKING AHEAD

The forward strategy outlined in our September 2022 commentary 'Preserve Capital, Make Money' remains in action. We maintain our slight underweight position in equities, with a bias towards defensives over cyclicals. With rising conviction that yields have peaked we have swapped some equities for gold – which doesn't have earnings risk – and invested our cash in long-term Treasury bonds, which will benefit from interest rate cuts in a recession. Both measures should help protect portfolios. We continue to look for final confirmation that the US is entering recession before moving longer duration within our fixed income allocation. We are also looking to buy cyclical equities on profit warnings and add to corporate bonds into any selloff.

As a long-term strategy with low turnover we fully expect and recommend that unitholders judge our performance over a period of five years or more.

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