Close Managed Funds

Monthly fund manager update

MARCH 2023

MANAGED FUNDS TEAM

MONTH IN FOCUS

March proved to be a tumultuous month for certain areas of financial markets, as contagion concerns around the banking sector surfaced in the face of a number of bank failures in the US and Europe.

Against this backdrop, the Close Managed Funds each posted a small negative return in both absolute and relative performance terms, with the exception of Managed Balanced, which delivered a return ahead of its Investment Association (IA) peer group. Therefore (with the respective IA sectors in brackets): Managed Conservative shed -0.7% (-0.6%), Managed Income -1.8% (-0.6%), Managed Balanced -0.8% (-0.9%) and Managed Growth -1.2% (-1.0%).

THOUGHTS FROM THE TEAM

At a market index level equities generally had a positive month, with the US, Europe, and Asian markets all in positive territory. The reason these regions performed relatively well can be partly attributed to the relatively low weighting towards banks and financials within the indices. For example, the proportion of the S&P 500 allocated to financials (including banks) in Q4 of 2022 was 11%, compared to 25% in information technology. The result was that the tech-heavy Nasdaq index tracker fund we own across Managed Conservative, Balanced, and Growth actually returned +6.1% in March, whereas the Premier Miton US Opportunities Fund, which we also own in Managed Balanced and Growth, fell -10.5% given its exposure to US regional banks (although none that failed).

The overall upshot was that March proved a poor month for cyclical and economically sensitive sectors and funds, over fears about a potential credit crunch. We think such fears are overstated at this point, and that the 'value' end of the market should do better in a higher inflation environment. That said, we remain diversified, believing that there are always areas to add positive returns.

For example, the Brown Advisory Global Leaders Fund returned +2.5% in March from a portfolio of defensive growth names such as Microsoft, Visa, Alphabet, and Unilever. Within bonds it was longer duration and higher quality credit that did best, as recession worries led many investors to favour areas of the bond market that would benefit from falling interest rates. We had some good returns from the Allianz Strategic Bond (+4.6%) and Janus Henderson Strategic Bond (+3.4%) funds, not to mention the long gilt exposure we hold across the Managed Funds that returned +5.2% in March.

It is also worth stressing that there was limited exposure to contingent convertible bonds (CoCos) or Additional Tier 1 (AT1s) bonds as they're sometimes known; and no exposure to Credit Suisse from any of our underlying managers. Our alternative exposure generally underperformed; however, the KLS Neiderhoffer Smart Alpha Fund delivered +4.7%, and our gold holdings returned over +6% for March.

ACTIVITY

During the month we continued to sell down the European Opportunities Trust position, and exited completely from Scottish Mortgage Trust within Managed Balanced. Both investment trusts are more growth-orientated and have struggled to close their discount to Net Asset Value (NAV) of late. We made a small top-up to First Trust US Equity Income and Premier Miton US Opportunities funds on short term weakness; but overall let the cash weightings drift up over the month.

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