Close Brothers Asset Management

Close Portfolio Funds

Monthly fund manager update

November 2024

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Managing Director

STRATEGY OVERVIEW

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

MONTHLY PERFORMANCE REVIEW & ACTIVITY

In a decisive US election victory, Donald Trump will return to the White House in January, bringing with him the 'America First' agenda he campaigned on. Prospects of corporation tax cuts, expansionary fiscal policy and 'Make America Great Again' – MAGA protectionism supported US domestic equities, with the Russell 2000 – US smaller companies index outperforming large cap indices. The dollar also surged post the result with markets perceiving Trump 2.0 policies as inflationary, reducing forecasts for Federal Reserve interest rate cuts in 2025 as a result. Global equities (the MSCI World index) returned +4.6%, converting to a gain of +5.8% in sterling terms allowing for currency movements, whilst IA UK Gilts returned +1.4%. Our US positions outperformed in the month with strong growth in financial businesses, Ameriprise and Fiserv.

Our favourite stocks have durable growth profiles in secularly growing industries, attractive relative valuation multiples and high free cash flow yields, with our existing portfolio presenting the hurdle level. New additions in November included leading US pharmaceutical distributors Mckesson and Cencora hold these characteristics and, following litigation resolution and possessing better pricing structures than in previous years, both stocks are looking to rerate to higher multiples. To fund these purchases, we reduced US holdings where either end market growth is less supportive, selling out of Advanced Drainage and Tourmaline Oil, or where valuations are relatively less compelling, reducing our position in US insurance brokers Arthur J Gallagher, Brown & Brown and Marsh McLennan. Our overall equity position remains overweight, whilst fixed income duration is slightly below neutral level.

All three risk strategies delivered strong returns ahead of their respective IA benchmarks in November and remain ahead of their respective IA peer group year-to-date.

LOOKING AHEAD

It is now almost a year since we reversed our cautious stance on markets and became the most optimistic, we have been since managing the Close Portfolio Funds. As long as there are no signs that America has entered recession we will maintain an overweight stance on equities. Within fixed income we will continue to seek out above-average yields for below-average risk in corporate bonds complemented by sovereign bonds to protect against a recession scenario, which is the main risk to the portfolio. However, whilst a 'soft landing' for the US economy and the trajectory of interest rates remains unconfirmed, we are vigilant for exogenous shocks such as pandemics and geopolitical upsets.

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.

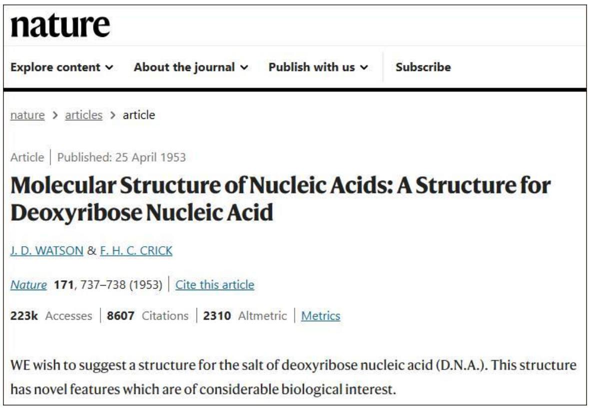
SPRINGER NATURE

Springer Nature is an academic journal publishing business, which listed on the German exchange in early October 2024. We are familiar with this industry – at the time of writing, we hold positions in RELX and Informa, both of which have academic journal operations as part of the wider groups. Further work on Springer Nature implied that the initial public offering (IPO) pricing range was attractive, and we therefore participated in the IPO process and received an allocation.

Academic journals are periodic collections of the latest research findings and are unique from other forms of publishing due to the need for peer review and editorial refereeing in order to confirm the findings. For the author, journals act to i) date-stamp the academic's idea ii) validate the work through peer review iii) distribute the research to the relevant audience and iv) creates a record from which other researchers can use (or 'cite') in further work. From the reader's perspective, journals serve as a filtering mechanism of the ~3.7m articles published each year to contain only the best / most relevant. This serves as a fly-wheel effect over time, where academics only want to publish in the best journals, and consumers of research need access to the best to develop their own understanding and progress their field of study. Market share consolidation has therefore taken place towards the leading publishers, with the top four accounting for 48% of article volumes in 2013 rising to 54% in 2023. Springer Nature is very much in this leading camp, best highlighted through its 'Nature' portfolio of journals where Watson and Crick's 1953 DNA paper was first published, for example (see image).

The most significant change taking place in the industry is the shift from subscription bundling of academic journals, where the reader pays for access, to 'open access' publishing, where the publisher pays. In the early stages, this was viewed as a risk to the industry as it challenged the relative safety of subscription-based revenues with predictable pricing step-ups. What has materialised is faster growth rates under open access, as budgets (the source of revenues) have shifted from libraries, growing 1-2% per year, to R&D budgets growing ~5%. In other words, the shift to open access has served as a tailwind for the industry, and Springer's open access revenues have grown at a ~10% compounded annual growth rate (CAGR) over the past two years. Growth is likely to endure, not least because other regions (US, China, India) are playing 'catch-up' with Europe in this shift.

Overall, Springer is positioned as a mid-single digit organic grower with natural operating leverage, meaning earnings growth ahead of revenues. This growth is also defensive – academic journal activity is not tied to the economic cycle, leaving an attractive compounding set-up for the shares.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Article | Published: 25 April 1953

Molecular Structure of Nucleic Acids: A Structure for Deoxyribose Nucleic Acid

J. D. WATSON & F. H. C. CRICK

Nature 171, 737–738 (1953) | Cite this article

223k Accesses | 8607 Citations | 2310 Altmetric | Metrics

WE wish to suggest a structure for the salt of deoxyribose nucleic acid (D.N.A.). This structure has novel features which are of considerable biological interest.

ESG

Springer's carbon emission goals are in-line with the stated goals of the Paris Agreement but aims to achieve these goals 10 years earlier (2040). Springer also runs a 'Sustainable Development Goals (SDG) Programme' which acts as a platform for researchers tackling the world's challenges, which can then be accessed by decision-makers in politics/business responsible for implementing change.

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