Close Diversified Income Portfolio Fund

Monthly fund manager update

December 2024

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PERFORMANCE

The Close Diversified Income Fund returned -0.6% in December compared to -1.1% for the Investment Association (IA) 20-60% Shares Sector peer group. The Fund recorded a new all-time high Net Asset Value (NAV) in December, for the tenth month in a row.

In 2024, the Fund finished up +9.2%, comparing very favourably to the IA sector's +6.1%, and just shy of the best year in its history of +9.8% in 2019. This outperformance may be considered surprising given the outsized gains from US equities in 2024 (the S&P500 added +23.3%, beating the UK market's +5.7%) and US technology stocks (NASDAQ advanced +28.6% and the 'Magnificent Seven' +67.3%) which are not notable features in the Close Diversified Income Fund. The Fund benefitted instead from other drivers of returns:

1) a high starting yield, which comprises the majority of the achieved return

2) capital gains from bond investments made back in the 2022 sell-off as credit spreads tightened (our corporate bonds materially outperformed the gilt market, with many delivering strong positive returns, versus a loss for gilts). When we did take profits from corporate bonds during 2024 we recycled the cash into beaten-up investment trusts and predominantly short-dated gilts.

3) strong performance from some individual holdings (ie Imperial Brands +41%, Philip Morris +28%, gold +27%, British American Tobacco +26%, Mastercard +23%, Visa +21%, Pollen Street +20%, and two investment trust holdings were bid for.

The Fund's 13-year 11-month track record is +91.7%, versus +76.3% for the IA 20-60% sector peer group. Since starting to run the fund in 2011 Close Diversified Income is 1st out of 75 funds on risk-adjusted returns (measured by Sharpe Ratio).

In equities in December, the US fell -2.5% (-0.9% in sterling terms), Europe advanced +1.9% (+1.6% in sterling terms), UK large-cap slid -1.4% and the UK mid-cap index -0.7%.

The 10-year gilt yield rose sharply from 4.24% to 4.57%. Large losses were seen in long-dated bonds as the 20-year gilt yield and 30-year gilt yield both rose sharply too and finished the year at 5.08% and 5.13% respectively (now higher than the Truss/Kwarteng Budget sell-off in 2022). BBB credit spreads tightened in the month from 1.28% to 1.12% (well below the 2.1% long-term average). BB spreads tightened too, from 2.49% to 2.4%. (well below the 4.25% long-term average).

The duration of the bond portfolio reduced 0.1 years to 3.1 years - still fairly short.

Alternatives generally sold off in December too, in sympathy with rising gilt yields, leaving unrealised and potential performance in trusts trading at discounts to their NAVs back up at 7.2%, from 6.5%. This bodes well for future returns or leaves a lot of room for share prices to absorb any bad news/NAV declines. During the year our estimate of this unrealised potential performance did come down slightly from 7.5%

Close Brothers Asset Management

– helped by the takeovers of Atrato Onsite Energy and Tritax EuroBox.

PORTFOLIO ACTIVITY

- Tritax EuroBox was taken over and cash was received
- We continued to upweight BBGI Global Infrastructure. It has a dividend yield of 6.8% (rising to 7.0% in 2025)
- We topped up GCP Infrastructure (10% yield) and 3i Infrastructure (4% yield) in the December falls
- The cash position rose to 1.5% from 1.3%

YIELD

Close Diversified Income's yield (based on end of month prices) was static at 6.1%. This will receive a small boost next month as we roll the model forward one year to use 2025's expected dividends. The Fund is generating c.0.5% of income per month, which will help to offset any future downward volatility. Cash and Gilts are 12.9% of the portfolio, which can be used to fund future investments we consider attractive risk/reward.

OUTLOOK

We remain underweight equities for valuation reasons, and we have trimmed corporate bonds after a material tightening in spreads. Gilts, predominantly 2025 maturities, have been added to the Fund which are highly liquid, offer real returns and a source of cash to invest in new ideas. Volatile markets increase the likelihood of finding more investments at valuations we consider good risk:reward and which will aid forward looking returns.