Close Portfolio Funds

Monthly fund manager update

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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

February saw the US equity market give up its year-to-date gain. At the macroeconomic level, US consumer confidence dropped to an eight-month low following the sharpest deterioration in several years. This was also backed up by January US retail sales falling in the biggest drop in twenty-two months. While exogenous factors (weather, wildfires) contributed to the weak print, it's difficult to paint this as optimistic when taken with the sobering confidence survey. US consumers didn't get much reprieve from their investment portfolios, either, as the 'Mag 7', the seven biggest US technology companies officially entered 'correction' territory, after falling over 10% from their December highs.

But all else paled in comparison to Ukrainian President Zelensky's visit to the White House on 28 February. What ensued was nothing short of extraordinary – an awkward, undiplomatic exchange on how peace with Russia should be pursued. Context is important here, given that Trump had essentially side-stepped European leaders by beginning peace talks directly with Russia's President Putin a few weeks prior to the meeting. What became glaringly apparent over the month was that the US military support for Europe is lessening, alongside rising geopolitical uncertainty from Trump's volatile trade tariff rhetoric. European leaders rallied together and responded, committing to greater defence spending as a percentage of GDP, in turn helping to boost European equities which – thanks as well to the US tech sell off – outperformed the US market by nearly 5%. Against this backdrop, UK and European government bond yields ended the month relatively unchanged while yields in the US headed lower, along with the US dollar. In February, dollar / sterling currency moves worsened the equity market decline for a sterling-based investors.

So, given slowing economic data in the US along with rising geopolitical fractures, we edged towards more defensive equity holdings and trimmed cyclical / more interest rate-sensitive exposure, where the share prices had held up reasonably well. For example, we exited positions in Booking Holdings and Marriot Vacations – both tied to discretionary travel expenditure – as well as cutting back on UK repair/remodel play, Howdens Joinery. We added to US drug distributors, Cencora and McKesson, which are still trading on attractive valuations as well as being largely independent of macroeconomic conditions. There was also an addition to Springer Nature, which is an academic journal publisher. The net impact of trading activity over the month was to reduce the funds' equity weighting in favour of holding slightly higher levels of cash.

All three risk strategies remain ahead of their respective IA peer group benchmark year-to-date.

LOOKING AHEAD

It is now over a year since we reversed our more cautious stance on markets and became the most optimistic, we have been since assuming responsibility of management of 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 interest rates remains on track we are also 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.

STOCK OF THE MONTH – LVMH

Moet Hennessy Louis Vuitton (LVMH) is the world's leading luxury goods conglomerate, spanning fashion, cosmetics, jewellery, wines, and spirits. Founded in 1987 through the merger of Louis Vuitton and Moet Hennessy, the company has grown into a powerhouse with a portfolio of more than 75 prestigious brands. These include fashion icons like Louis Vuitton, Dior, and Fendi; watch and jewellery houses such as Bulgari and Tiffany & Co.; and high-end spirits like Dom Perignon and Hennessy. LVMH operates across five key business divisions: Fashion & Leather Goods, Wines & Spirits, Perfumes & Cosmetics, Watches & Jewellery, and Selective Retailing (which includes Sephora and DFS duty-free shops).

The company has consistently delivered strong financial performance, with a long-term track record of revenue and profit growth. Despite global economic fluctuations, LVMH has demonstrated resilience, driven by its pricing power, brand desirability, and a strategy of careful brand stewardship and expansion.

Between 2010 and 2023, LVMH's annual revenue grew from around EUR20 billion to over EUR85 billion, reflecting an impressive compound annual growth rate (CAGR) of around 10%. The company benefits from an expanding global luxury market, particularly in Asia and the U.S., as well as continued demand for ultra-high-end products. Its strategy of selective acquisitions, artisanal craftsmanship, and digital innovation positions it well for continued leadership.

ESG

LVMH has made significant efforts in environmental and social responsibility. Its Life 360 program aims to reduce carbon emissions, ensure sustainable sourcing of raw materials, and enhance biodiversity. The company has committed to achieving net-zero emissions by 2050 and is increasing the use of recycled materials in its products while maintaining ethical supply chain standards and responsible business practices.

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