

cgam

Investor Day

1 November 2023
Grocers' Hall



Disclaimer

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Performance figures have been calculated by CG Asset Management Ltd based on information provided by Bloomberg, Morningstar and Northern Trust International Fund Administration Services (Ireland) Ltd.

The value of all investments and the income there from can go down as well as up and the investor may not get back the amount invested. Past performance is not necessarily a guide to future performance. Investors should also note that changes in rates of exchange may cause the value of investments to go up or down.

This presentation was prepared on 31st October 2023, and fund performance data is updated to 30th September 2023. Other market data may be less up to date, nevertheless the managers consider such data to be representative of prevailing market conditions.

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CGAM INVESTOR DAY

Agenda

- | | | |
|--------------------------------------|--------------------------|-----------------|
| <i>1. What Siegel Won't Tell You</i> | <i>Chris Clothier</i> | <i>10.00 am</i> |
| <i>2. One Lump or Two</i> | <i>Alastair Laing</i> | <i>10.20 am</i> |
| <i>3. Reasons for Optimism</i> | <i>Peter Spiller</i> | <i>10.40 am</i> |
| <i>4. Coffee break</i> | | <i>11.05 am</i> |
| <i>5. Keynote Speech</i> | <i>Edward Chancellor</i> | <i>11.30 am</i> |
| <i>6. Q&A</i> | | <i>12.00 pm</i> |
| <i>7. Drinks</i> | | <i>12.30 pm</i> |

CGAM INVESTOR DAY

There are several ways to stay in touch

Macro Snapshot

CGAM: October 2023 Macro Snapshot

Emma Moriarty <EMoriarty@cgasset.com>
To: Hassan Raza

[Click here to download pictures.](#) To help protect your privacy, Outlook automatically blurred some information in this message.

Here's a quick update on our current views:

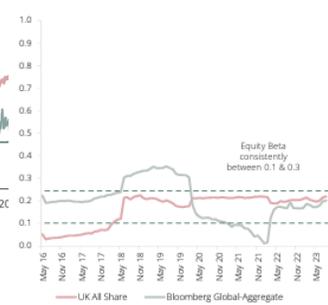
- It seems that the penny has finally dropped in financ
- The US Treasury market has been at the epicentre of result of an accumulation of factors:
- The FOMC released its latest Dot Plot which showed forecast. Interest rate projections available [here](#), page
- Move around the potential for a 11C environment chur

Performance Factsheets

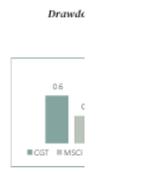
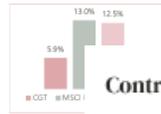
Performance Since Inception (total return)



Sharpe Ratio & Volatility (%) vs. Major Indices

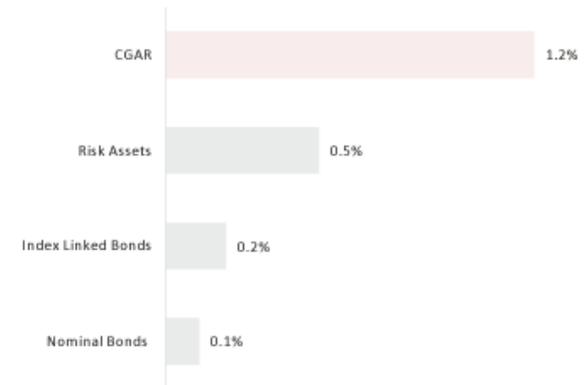


Research Analyst Packs



Quarterly Webinars

Contribution by Asset Class 3Q 2023



Quarterly Commentary

The Limits to Monetary Tightening

Higher real interest rates will exacerbate the growing debt burden

Real interest rates continue to march higher. This trend is becoming increasingly central to the policy debate in the US, where nominal interest rate expectations continue to increase across the Treasury curve, while – surprisingly, given recent experience – inflation expectations remain anchored to the Federal Reserve's target of 2%. The steady increases to US real interest rates that have taken place since August 2021 now beg the question: how much higher will real rates go?

Central bankers, most notably Jerome Powell in his recent Jackson Hole speech, have reached for r^* as a benchmark for the level of real interest rates. The neutral rate of interest, r^* , is the policy interest rate at which the economy is fully employed and inflation is at target. It is a theoretical concept, and its value at any given time is unknown. Helpfully, the Federal Reserve Bank of New York publishes quarterly estimate ranges, with the most recent estimated range of 0.6% to 1.1%, representing the extent of the uncertainty around the value.¹

There are reasons to believe that real interest rates will continue to rise in the short term. The theory behind real interest rates is that they represent the price at which the supply of savings and demand for investment is in equilibrium. In an open economy, the current account is the balancing factor between the demand for investments and the supply of private sector and government savings. At present, the US economy is characterised by a low household savings rate, and a widening government budget deficit.² The Federal Reserve's monetary policy stance compounds this dynamic: whereas central bank purchases under quantitative easing had absorbed some of the supply of government debt, the current policy of quantitative tightening has essentially added to interest rate pressures by creating a secondary supply of government debt to the market.

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What Siegel won't tell you

Chris Clothier



WHAT SIEGEL WON'T TELL YOU

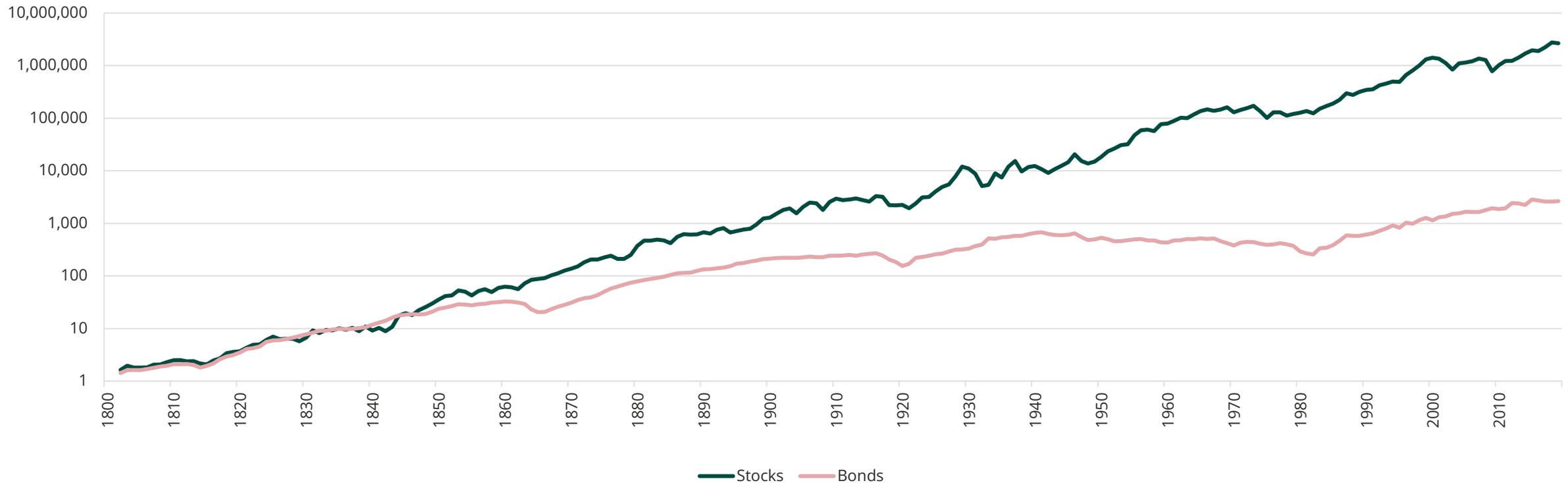
A significant improvement on Gresham Street



WHAT SIEGEL WON'T TELL YOU

Triumph of the optimists!

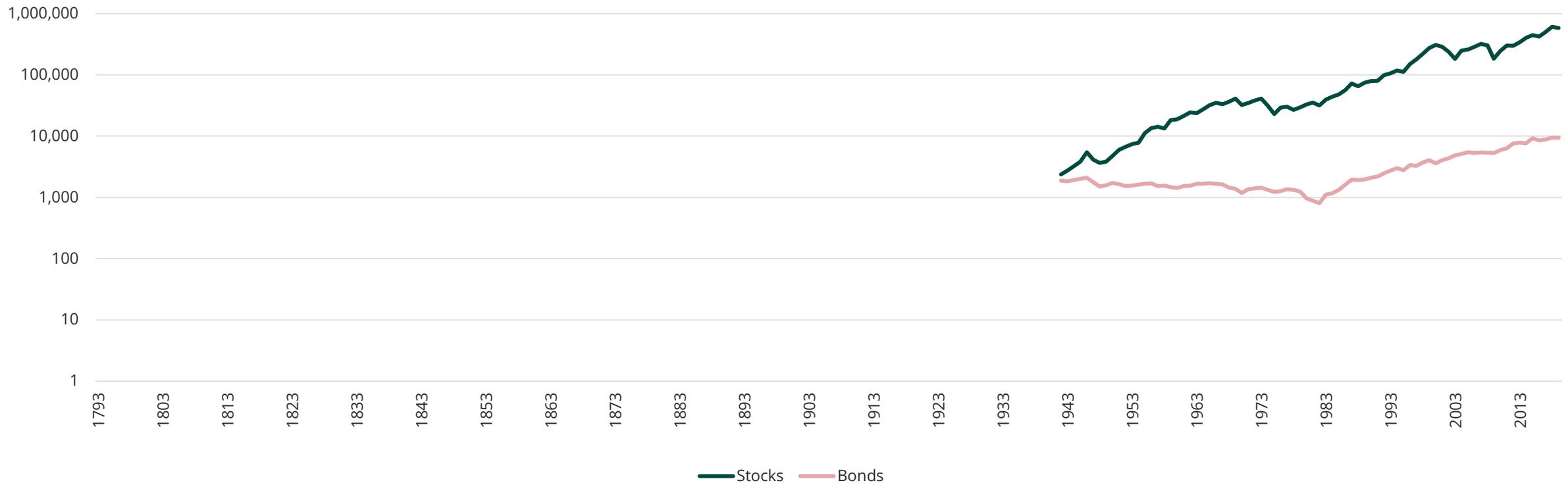
US Real Total Return Index - Siegel



WHAT SIEGEL WON'T TELL YOU

Triumph of the optimists!

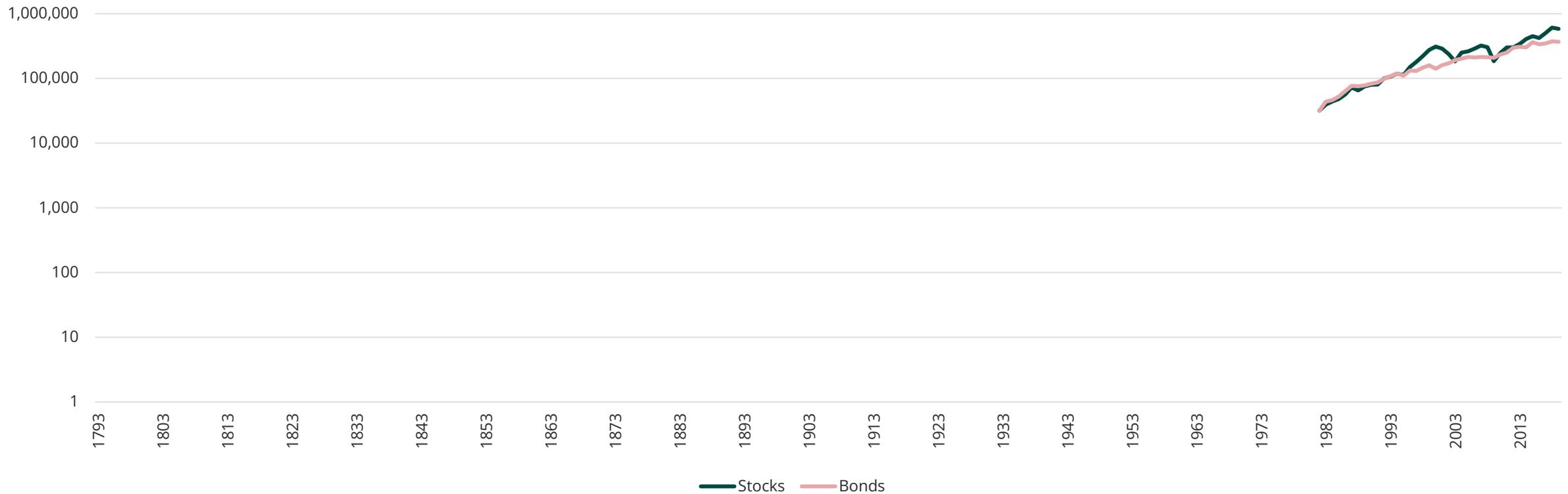
US Real Total Return Index – McQuarrie



WHAT SIEGEL WON'T TELL YOU

Triumph of the optimists?

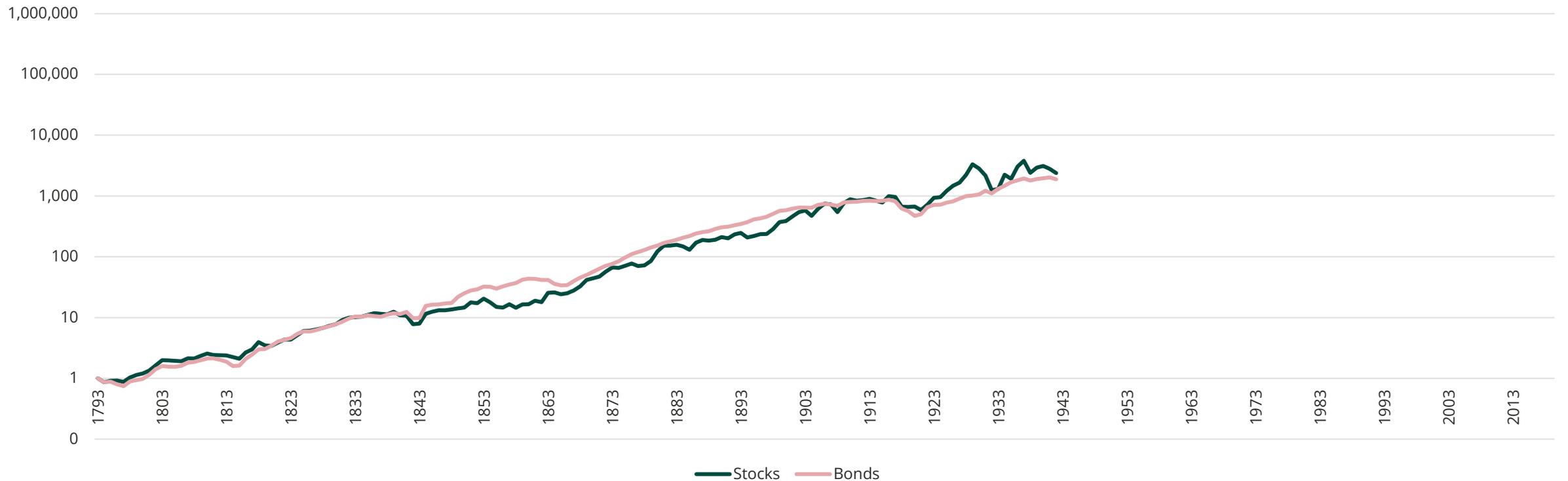
US Real Total Return Index - McQuarrie



WHAT SIEGEL WON'T TELL YOU

Triumph of the optimists?

US Real Total Return Index - McQuarrie

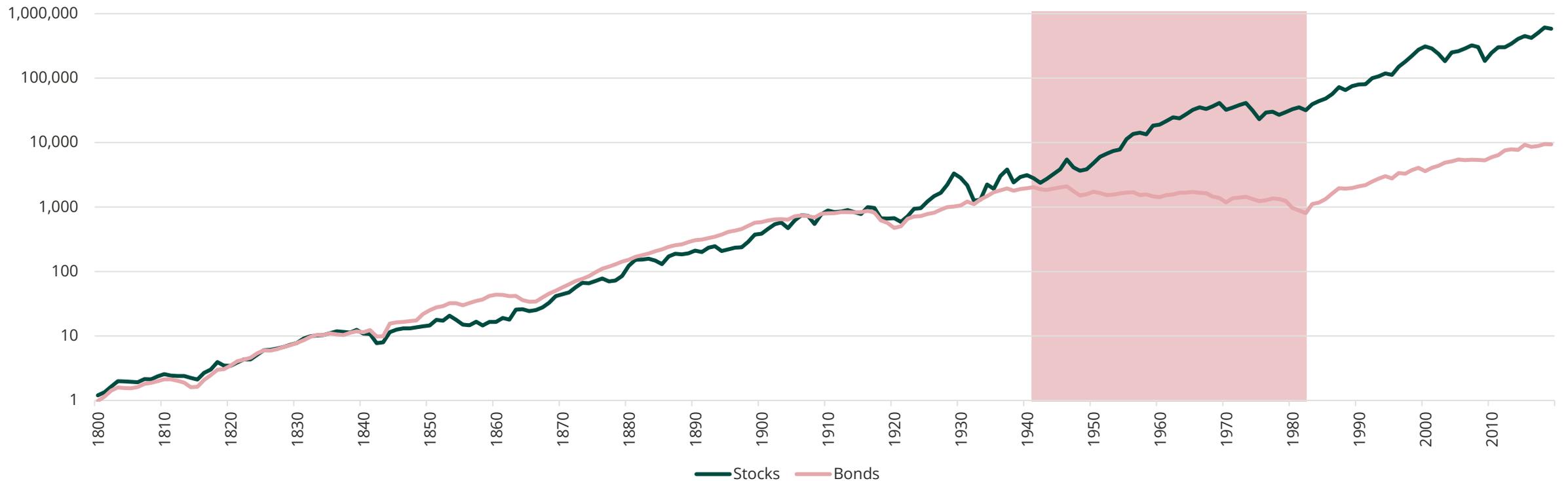


Bonds for the Long Run

WHAT SIEGEL WON'T TELL YOU

Triumph of the optimists?

US Real Total Return Index - McQuarrie



I have no money, and cannot get any work.

I'm so hungry.

I say Father, could you get some Speck Claws?

Father, can't I have a piece of bread?

My dear, cannot you contrive to get some food for the children? I don't care for myself.

I say Sam, I wonder where we are to get our Costs?

THE LORDS WARRANT OF DISTRAINT FOR RENT



WHAT SIEGEL WON'T TELL YOU

Markets go through phases where equities return essentially nothing for extended periods

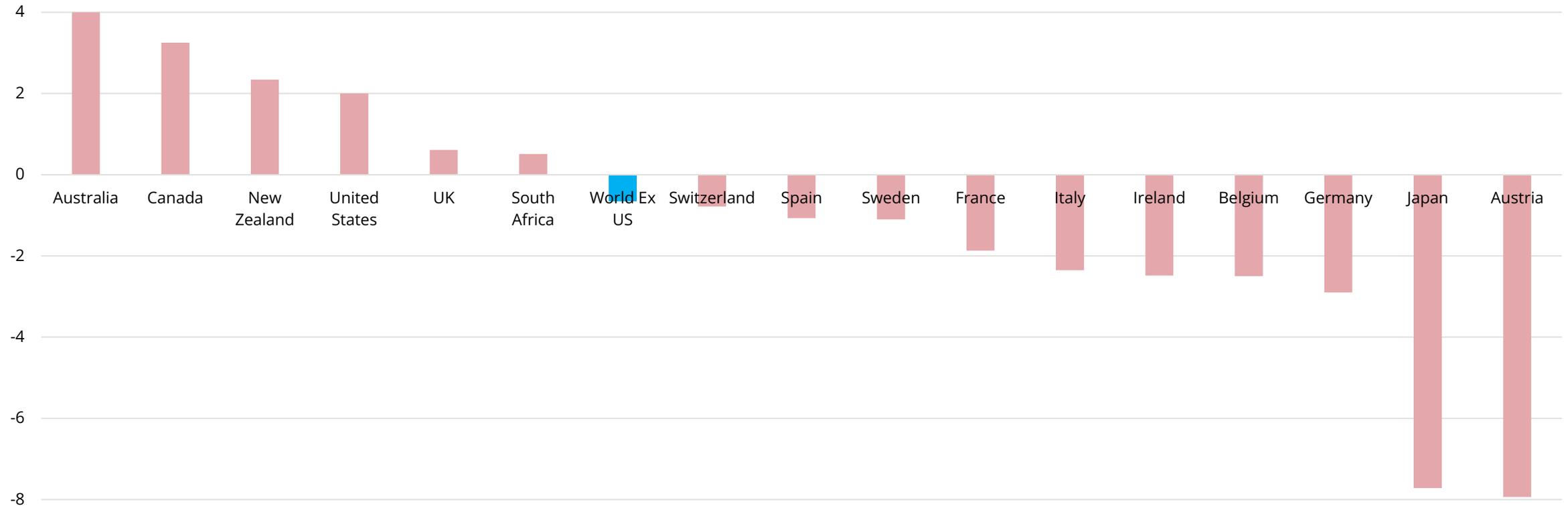
Longest US Equity Market "Slumps"

	Duration (Yrs)	Return (annlstd)
1803 -1815	12	0.5%
1836 -1858	22	1.0%
1903 -1921	18	0.1%
1929 -1949	20	0.8%
1966 -1982	16	-0.6%
2000 -2013	13	0.8%

WHAT SIEGEL WON'T TELL YOU

Lessons from overseas...

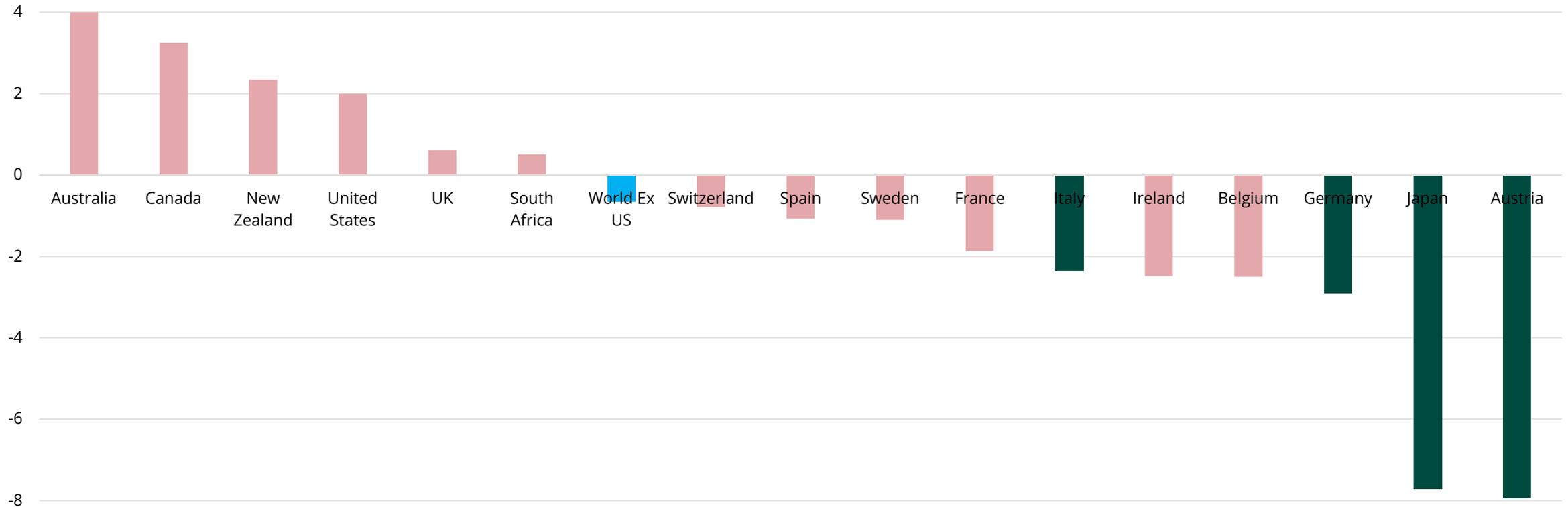
Worst Real Return for Equities over 30 Year Period



WHAT SIEGEL WON'T TELL YOU

Lessons from overseas... try not to lose World War(s)

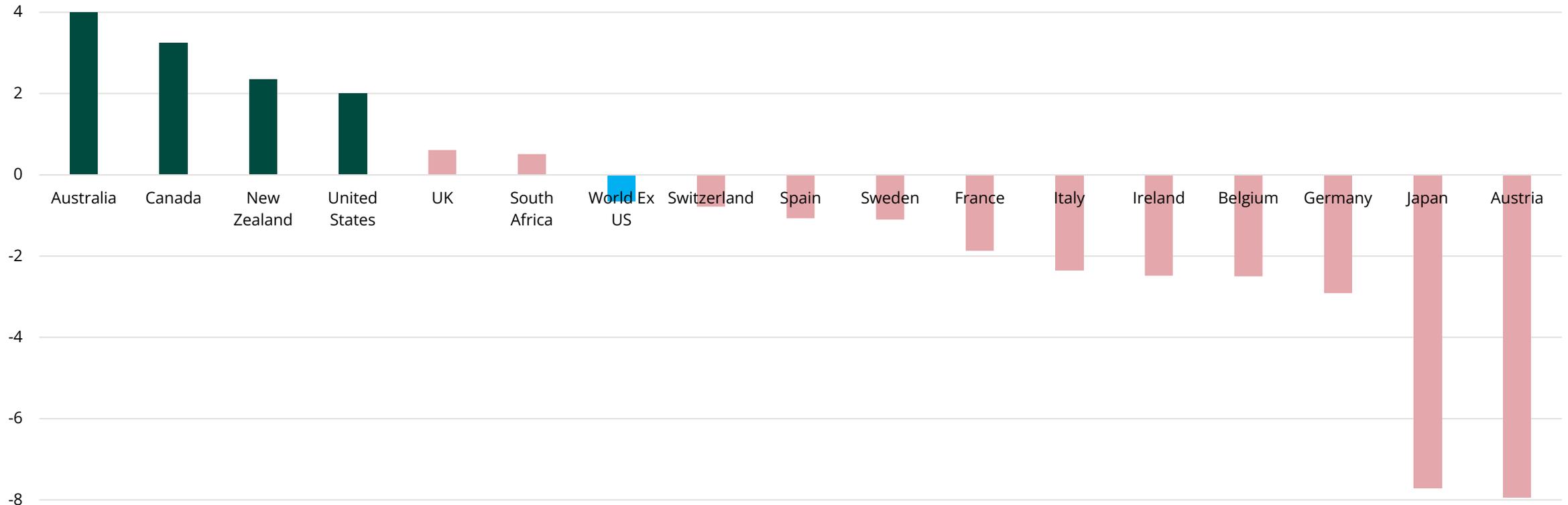
Worst Real Return for Equities over 30 Year Period



WHAT SIEGEL WON'T TELL YOU

Lessons from overseas... try not to lose World War(s)... and it helps to be an ex-UK colony

Worst Real Return for Equities over 30 Year Period



ГОСПОДИ ! ПОМОГИ МНЕ ВЫЖИТЬ



СРЕДИ ЭТОЙ СМЕРТНОЙ ЛЮБВИ

MEIN GOTT. HILF MIR DIESE TÖDLICHE LIEBE ZU ÜBERLEBEN

KÜNSTLER: DMITRI VRUBEL, MOSKAU
KÜNSTLERACENTUR Brodowski
BERLIN HOH. PSF 25. TEL. (0372) 3753504

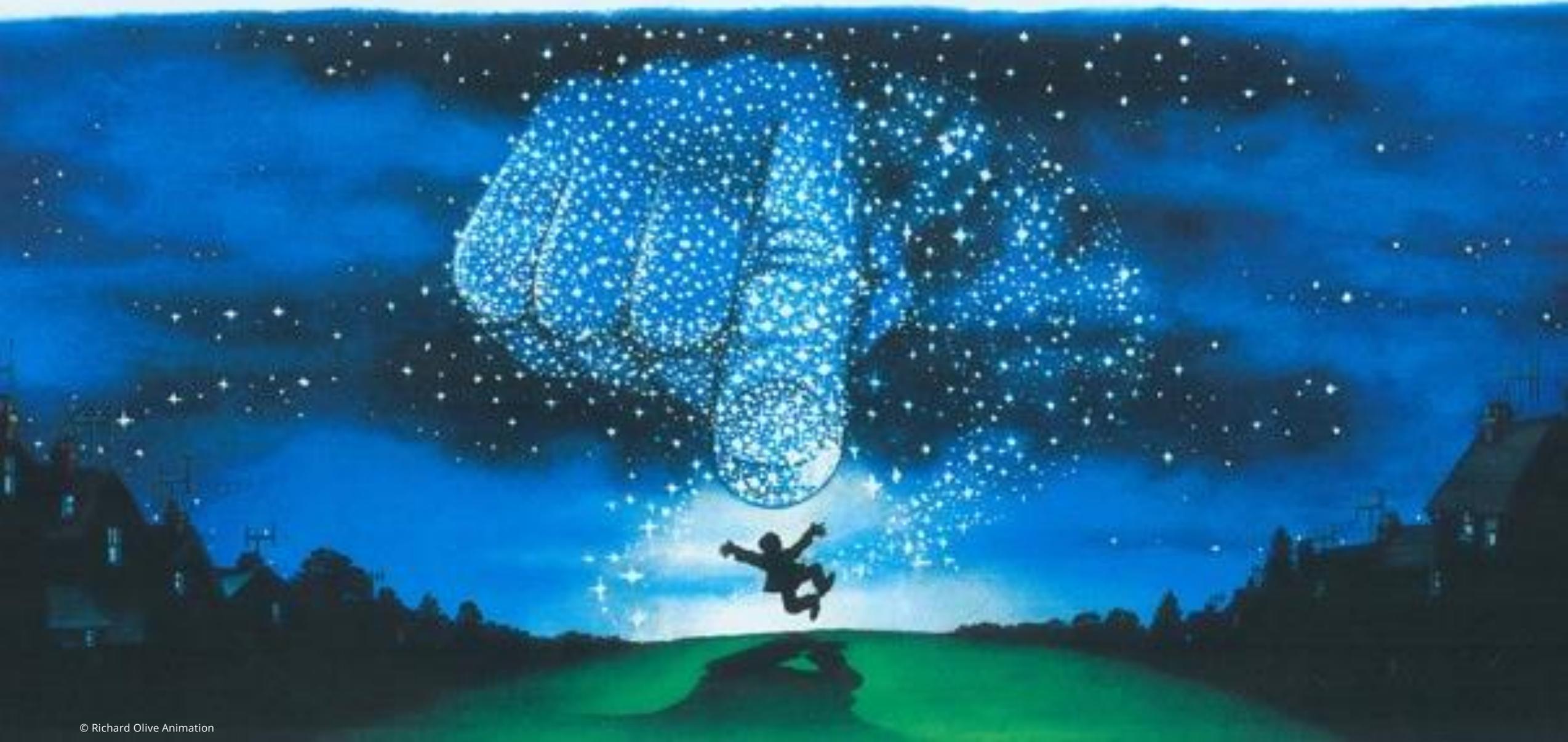
АЛЕНА СТИЛЬЯРИН НА ПАМЯТИ
ОТ АННЫ ВРУБЕЛ
МОСКВА - БЕРЛИН 1990. 1991



*As time goes on, you'll understand. **What lasts, lasts; what doesn't, doesn't.** Time solves most things. And what time can't solve, you have to solve yourself.*

- HARUKI MURAKAMI

IT COULD BE YOU.



For it to fail to hold over spans as long as a century calls into question whether there is in fact any lawful relationship between the returns of stocks and bonds.

- PROFESSOR MCQUARRIE

WHAT SIEGEL WON'T TELL YOU

Austria's zero coupon 100 year bond briefly rose above par...

Republic of Austria – Zero Coupon Bond due 2120



WHAT SIEGEL WON'T TELL YOU

Before demonstrating how to lose 97% in a “risk free” asset

Republic of Austria – Zero Coupon Bond due 2120



Caveat Investor

- PROFESSOR MCQUARRIE

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One lump or two?

What to expect after an inflation shock

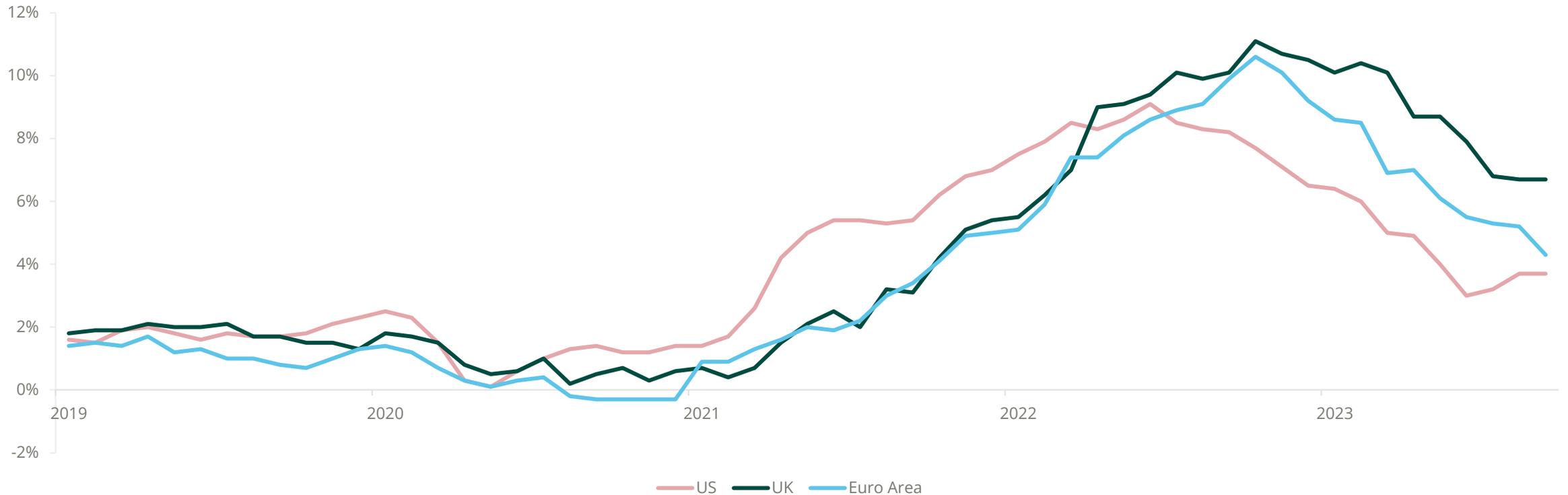
Alastair Laing



ONE LUMP OR TWO?

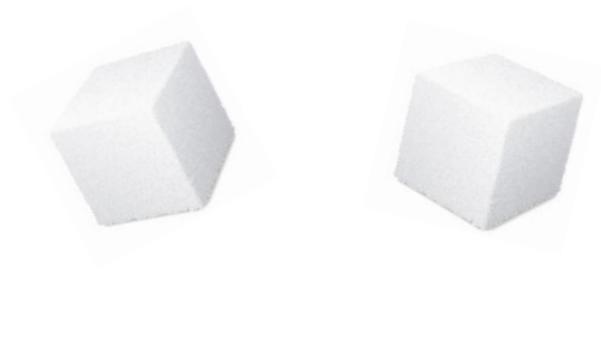
Glass half full: We are past the inflationary peak and into the “last mile”....

CPI (YoY)



ONE LUMP OR TWO?

Glass half empty: ...10 years of stewing in ZIRP has left a bitter taste



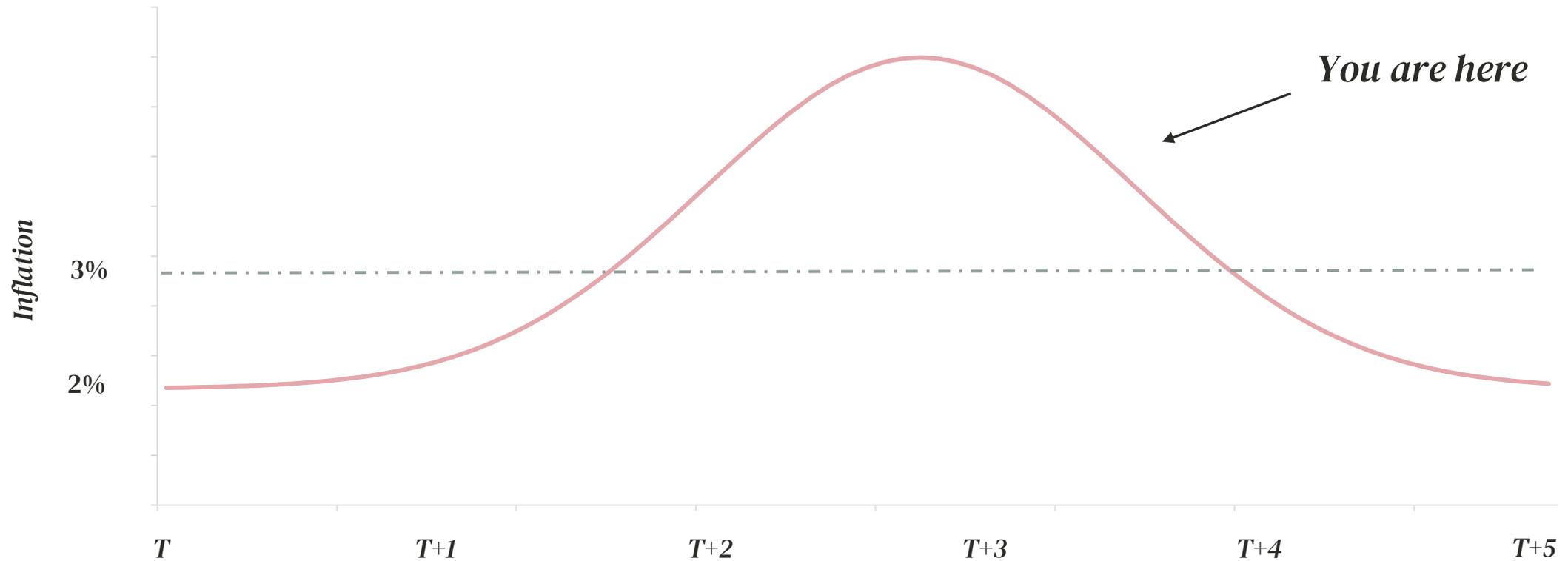
#1 Inflation is persistent, especially after a terms of trade shock

INTERNATIONAL MONETARY FUND (2023)

SEVEN STYLISTED FACTS

ONE LUMP OR TWO?

The inflation shocks were resolved in just over half of cases



Episodes of **resolved inflation** ~

#3 Had **tighter** monetary policy

#4 Implemented restrictive policies **consistently**

#7 Experienced **lower growth** in the short term

INTERNATIONAL MONETARY FUND (2023)

SEVEN STYLISED FACTS

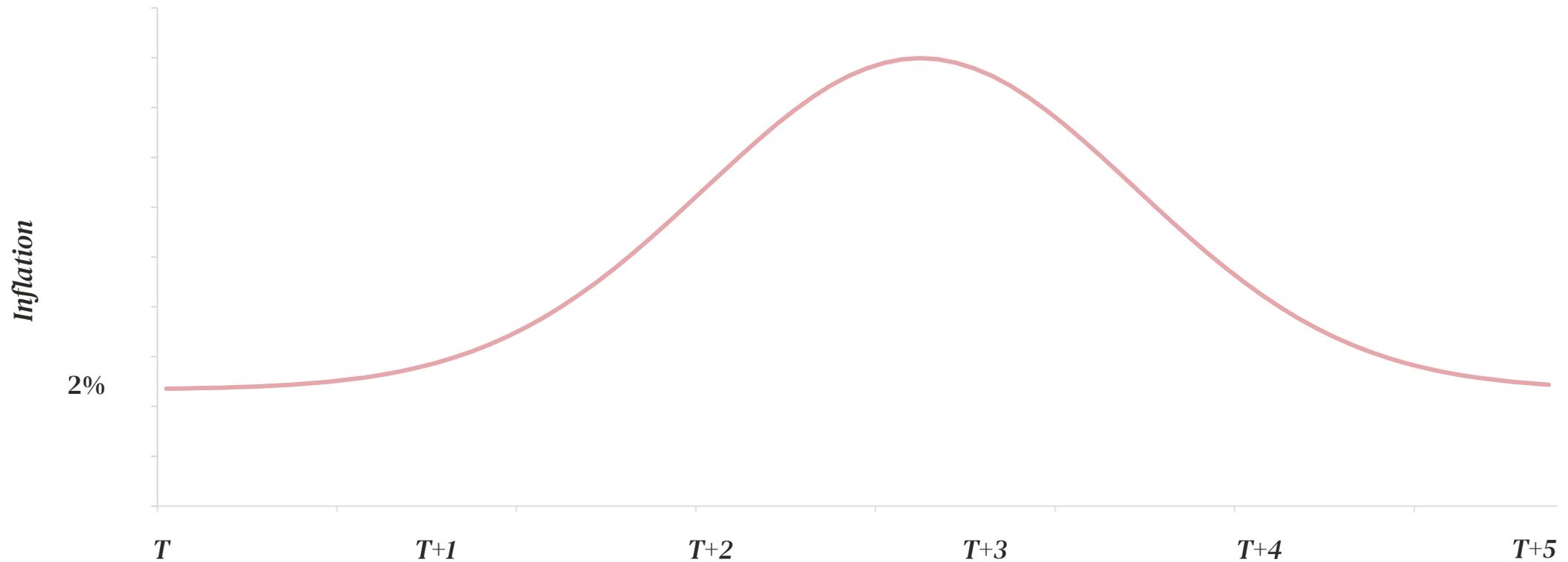
#2 Most unresolved inflation involved “premature celebrations”

INTERNATIONAL MONETARY FUND (2023)

SEVEN STYLISED FACTS

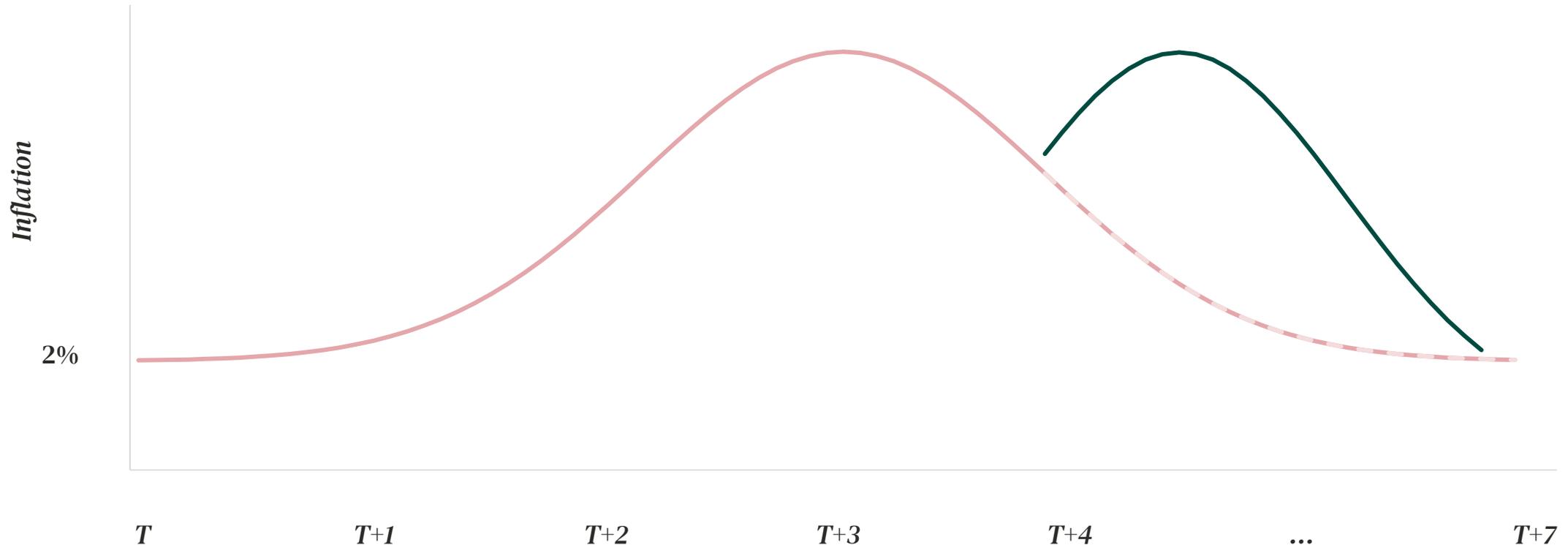
ONE LUMP OR TWO?

Almost half of inflation shocks resulted in “premature celebrations”...



ONE LUMP OR TWO?

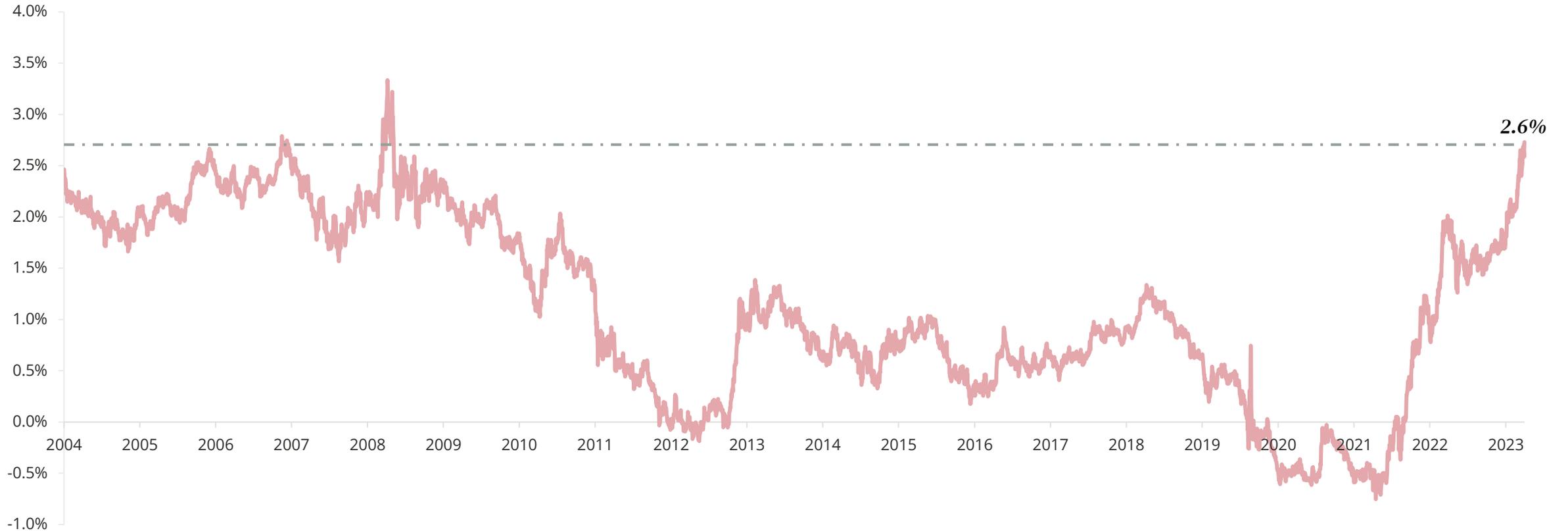
... and premature celebrations resulted in resurgent inflation



ONE LUMP OR TWO?

TINA is dead...where are my golf clubs

Real Yield on 20Y TIPS

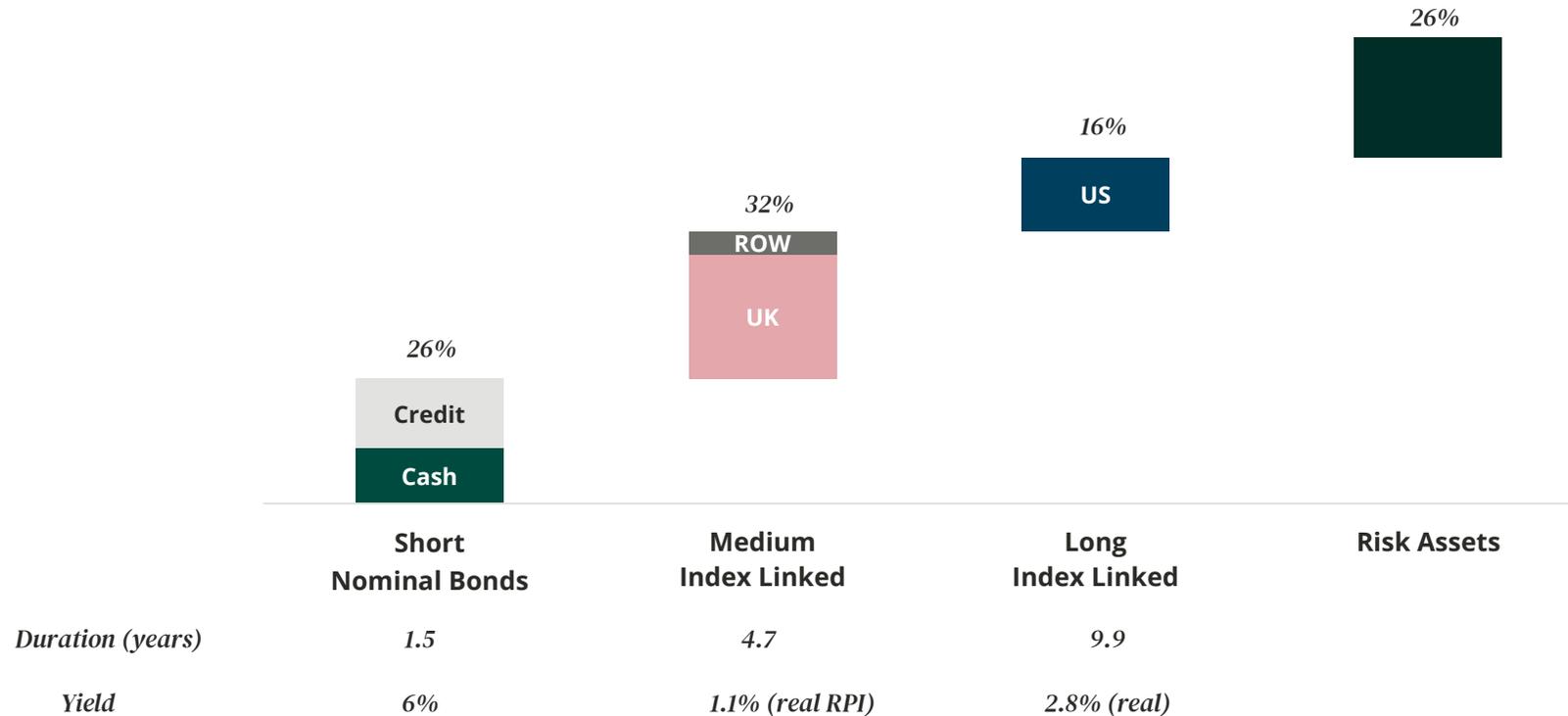


Source: Bloomberg Finance LP, CGAM

ONE LUMP OR TWO?

The sweet taste of positive real yields

CGT Asset Allocation and Yields Oct 23



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Reasons for optimism

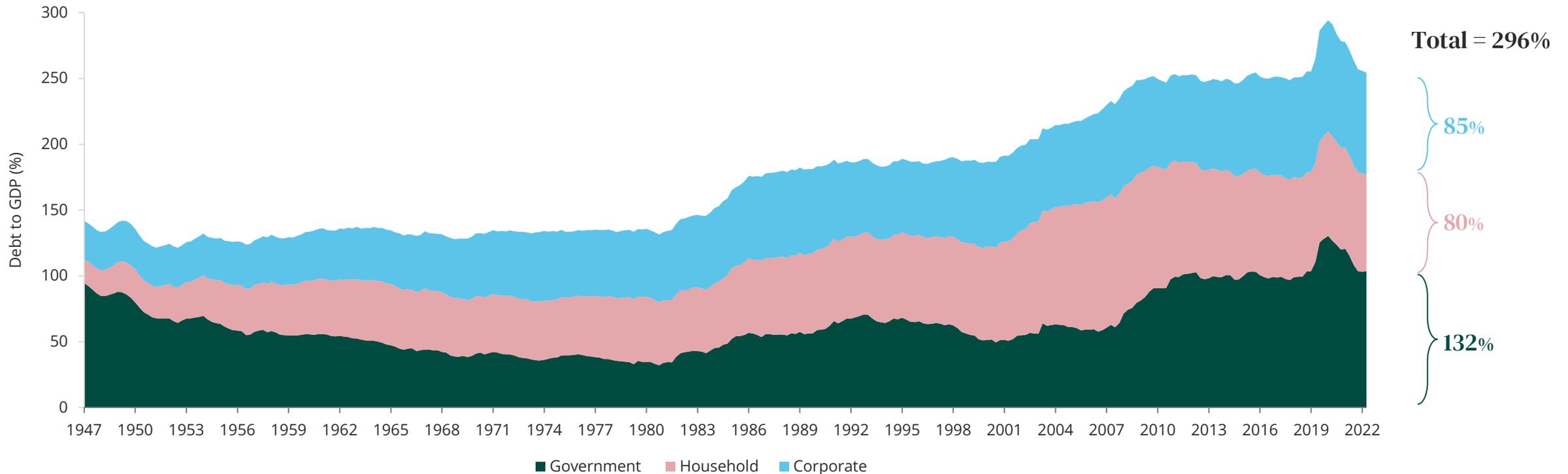
Peter Spiller



REASONS FOR OPTIMISM

The US economy remains highly indebted across all sectors

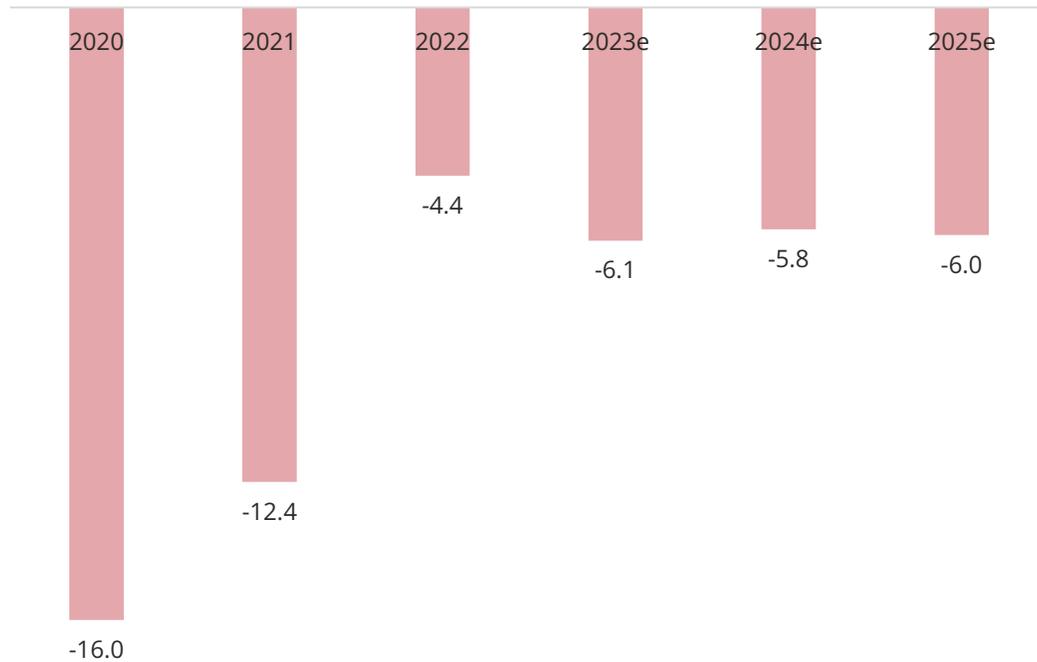
US Non-Financial Debt to GDP



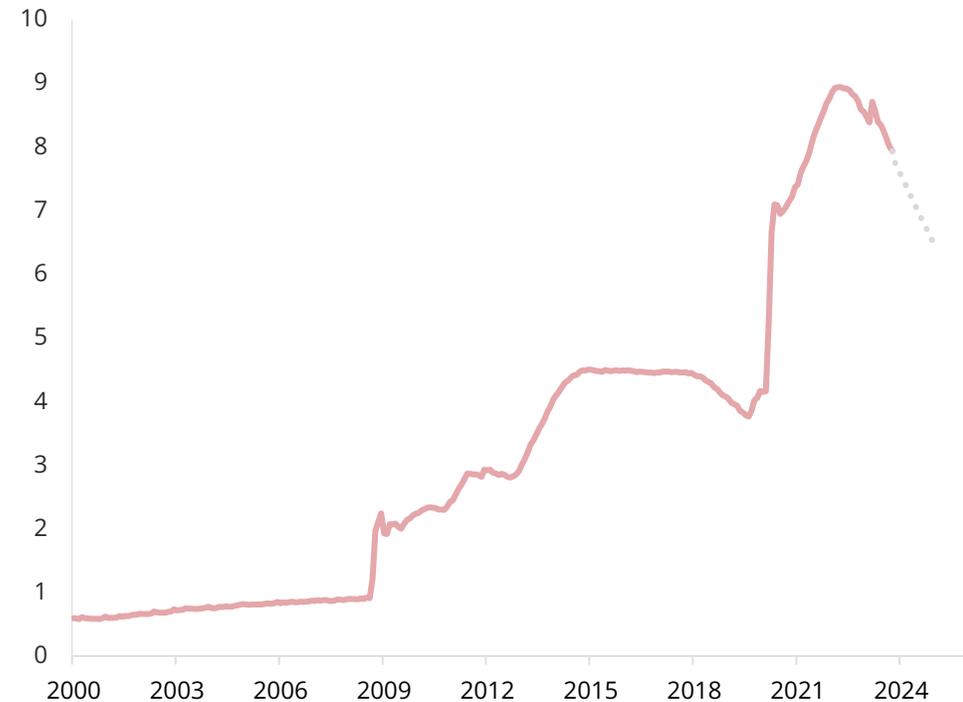
REASONS FOR OPTIMISM

Government bond markets face a growing supply-demand mismatch

US Fiscal Balance (% of GDP)



Federal Reserve Balance Sheet Roll off (Total Assets \$tn)

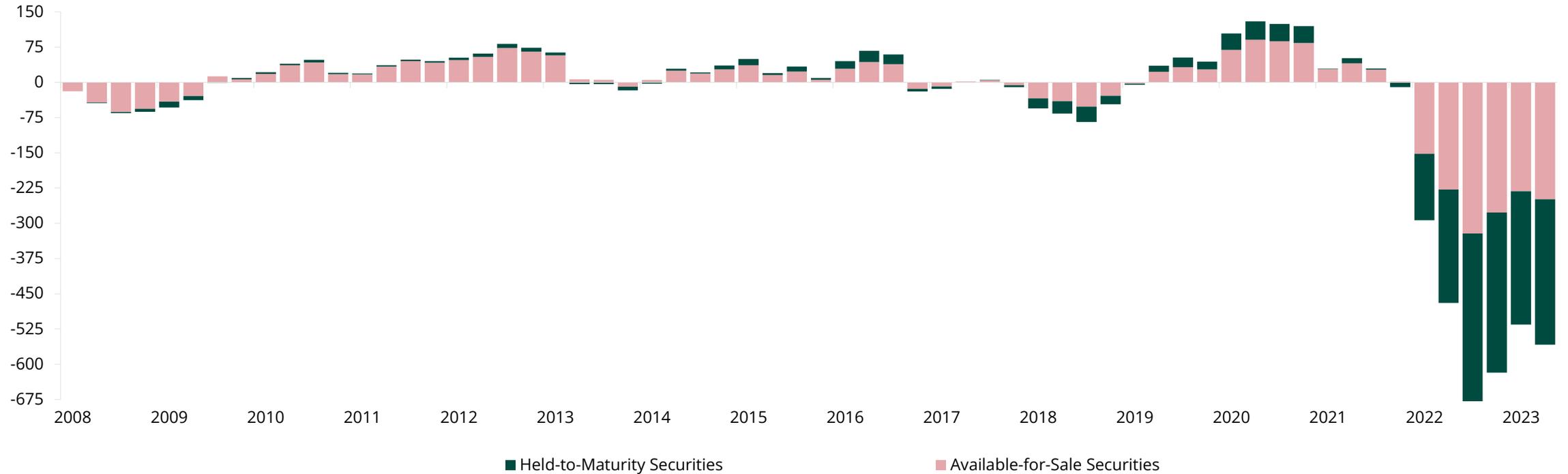


— Fed Balance Sheet Fed Balance Sheet (fcst)

REASONS FOR OPTIMISM

Elevated interest rates have exacerbated financial system fragility, leaving large losses on balance sheets

Quarterly Banking Profile - Unrealised Gains (Losses) to QE June 2023



Unrealized losses on securities solely reflect the difference between the market value as of quarter end and the book value of non-equity securities

REASONS FOR OPTIMISM

The household savings rate is low, and a return to historical levels would have a material impact on near term growth

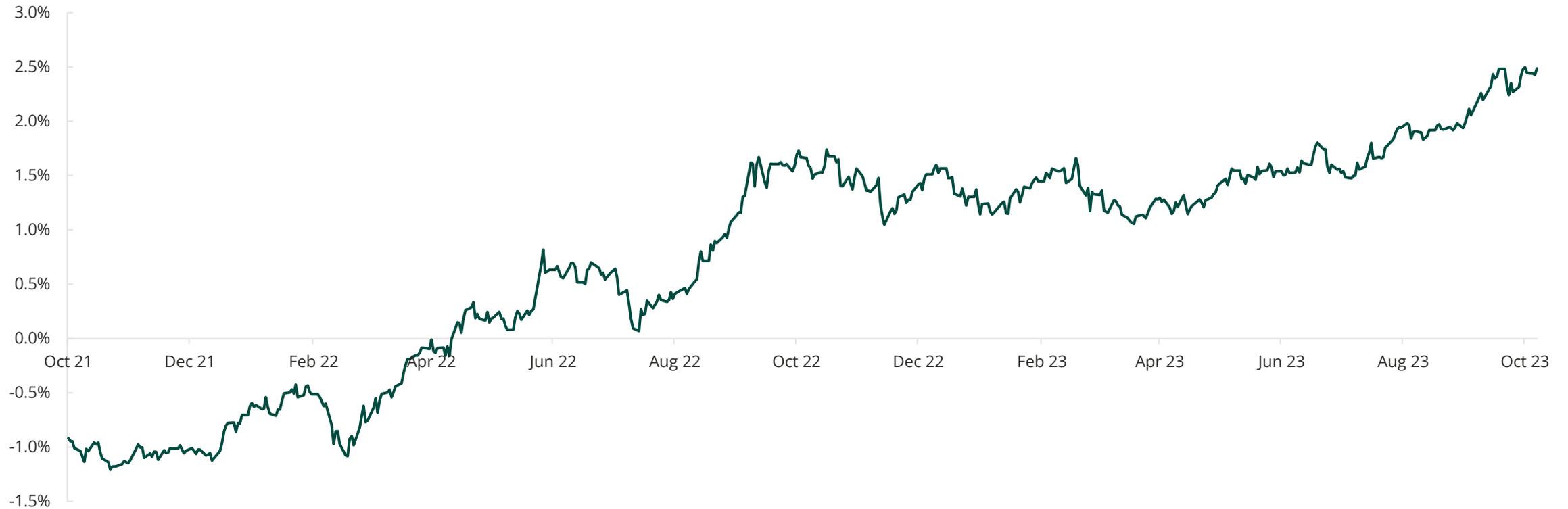
United States Personal Savings Rate (% of disposable income)



REASONS FOR OPTIMISM

Real yields are elevated relative to recent history and compared with most estimates of r^*

US 10Y Real Yield



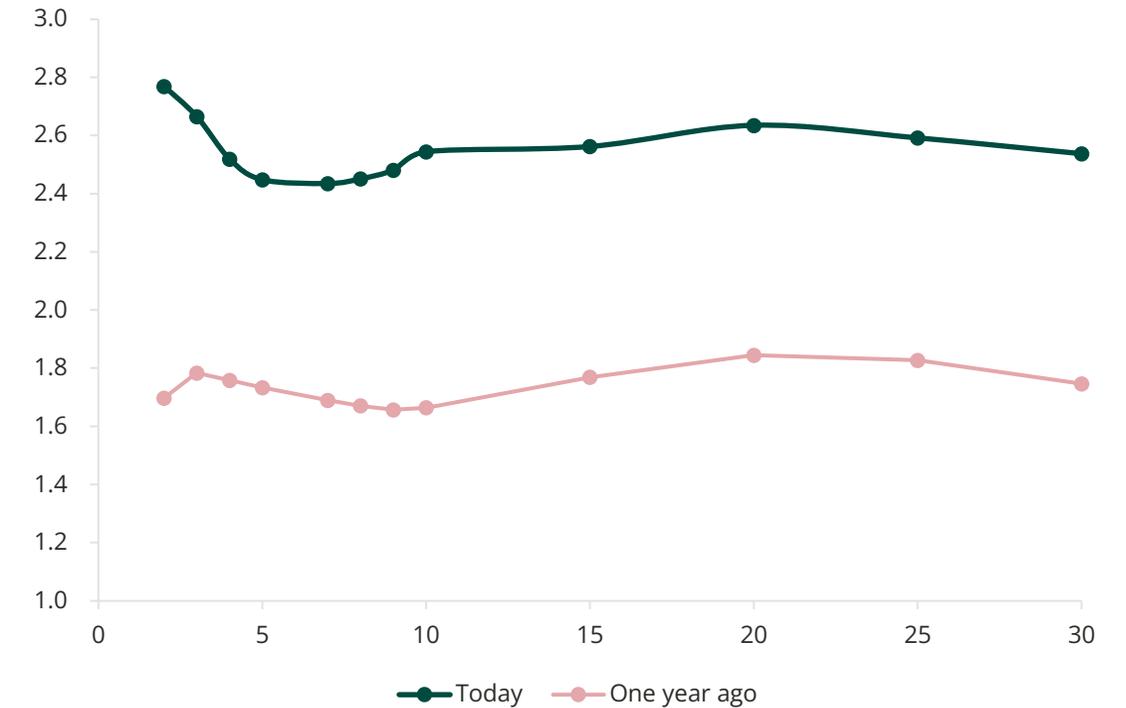
REASONS FOR OPTIMISM

Index linked bonds have dramatically outperformed their nominal counterparts this century – something we expect to continue

US Treasuries – Total Return (Dec 1999 = 100)



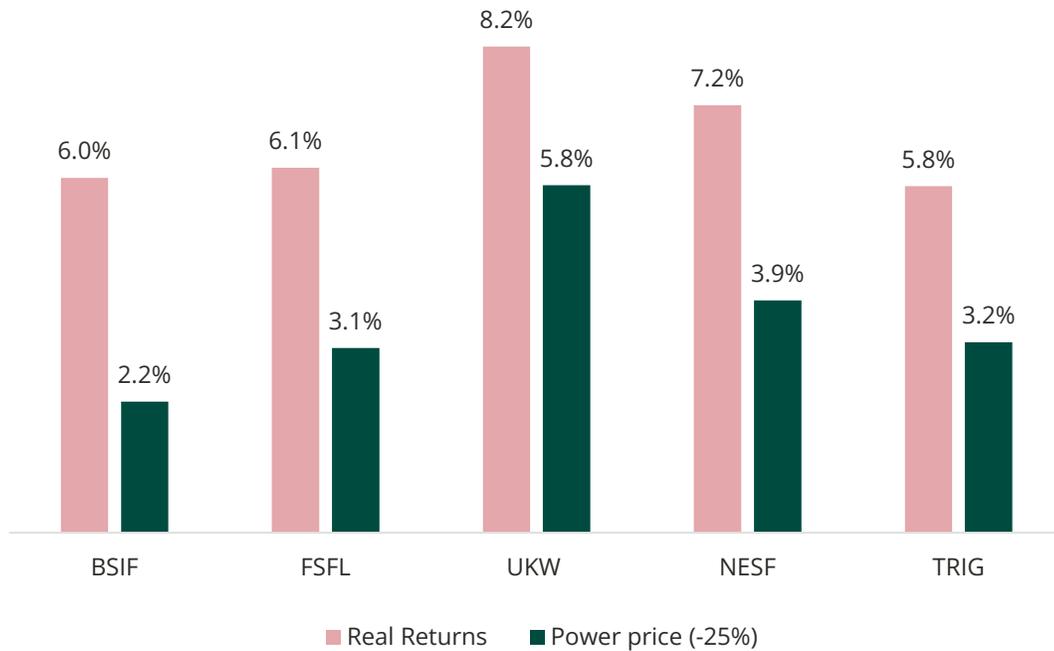
US Real Yield Curve Developments (%)



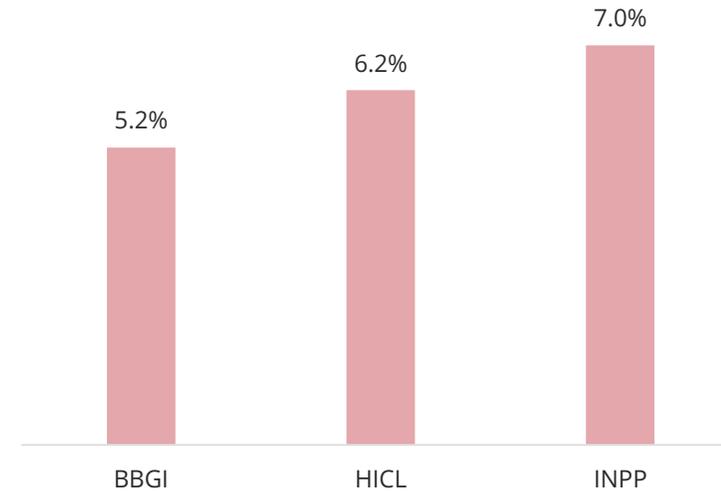
REASONS FOR OPTIMISM

Infrastructure is offering attractive inflation linked returns

Listed Renewables – Implied net real returns¹



Core Infrastructure – Implied net real returns¹

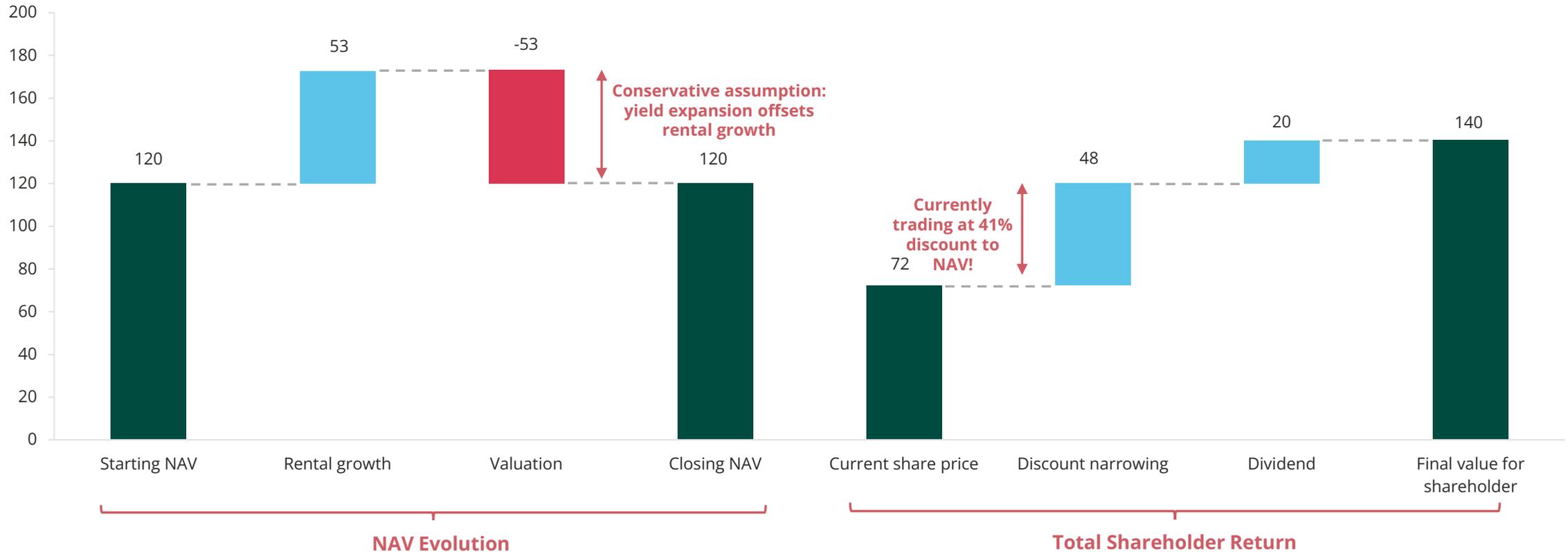


1. Returns are schematic, net of fees and at recent prices. Returns are based on sensitivities from company and CGAM estimates of inflation and earnings. Decline in power prices is through the model, ignores convexity and assumes a constant distribution of subsidised to merchant cashflows

REASONS FOR OPTIMISM

...and some property stocks may double in value over the next five years

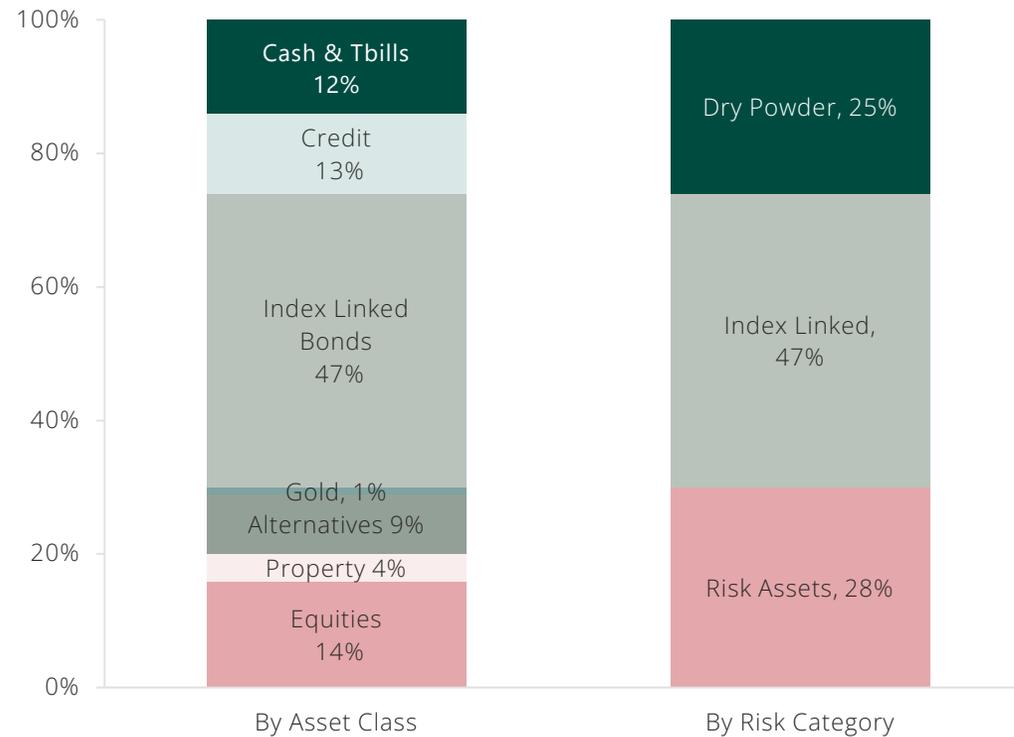
Stylised five-year total shareholder return on the PRS REIT



REASONS FOR OPTIMISM

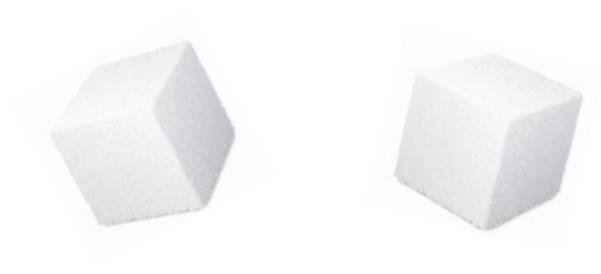
Port in a Storm – Prospective returns of the portfolio are attractive

CGT Asset Allocation September 2023



REASONS FOR OPTIMISM

Thank you...time for a coffee



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Keynote Speaker Edward Chancellor

Financial Historian

