

A black and white photograph of two mountain goats standing on a dark, layered rock face. The goats are positioned in the upper right quadrant of the image. The rock face shows distinct horizontal and diagonal layers, suggesting a sedimentary or metamorphic structure. The lighting is dramatic, highlighting the texture of the rock and the fur of the goats.

CG Asset Management

CG UK Index-Linked Bond Fund

November 2024

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CG UK Index-Linked Bond Fund

Overview

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CG UK Index-Linked Bond Fund Overview

Investment Objective



- To achieve **long-term capital appreciation and income growth** via long-only investment in UK government index-linked bonds
- Simple low-cost approach, no gearing, no short selling
- The fund is actively managed, without reference to a benchmark

Fees and Structure



- Size: **£12m** (launched in October 2023)
- Management Fee: **0.15%** | Total Expense Ratio: 0.24%
- Daily priced Irish UCITS

Investor Profile



The fund has a broad range of investors who typically exhibit the following characteristics:

- A long-term investment horizon
- An aversion to significant short-term losses
- A desire to generate returns that outpace inflation over the long term
- A focus on GBP-denominated returns

Overview

CG Asset Management Overview

2001

Founded

Founded in 2001 by Peter Spiller, former Chief Investment Officer and Chief Strategist of Cazenove

£3.0bn

AUM

£3.0bn in assets under management

2

Strategies

Manages two strategies, absolute return and real return, across six funds

13

Employees

Team of 13, based in London

262x

Return

Low-cost offering, with fee reductions regularly reviewed

2

Down Years

Capital Gearing Trust ("CGT") has returned 262x since 1982, with only two down years

CGAM in partnership with our clients

What makes us different?

What does that mean for our clients?

The firm's founding principles



1. The client comes first
2. Don't be greedy
3. Have fun

In turn these principles mean that:

- We have and will close funds to **protect investors**
- We continuously strive to **lower fees**, even on closed funds
- We have **low staff turnover**

Employee owned



- Majority owned by an Employee Ownership Trust, which means we will remain independent
- All portfolio managers are significant shareholders in CGAM

The right incentives



- A significant majority of our own capital is invested in our funds
- Our interests are directly aligned with those of our clients

Overview

Funds Summary

Strategy	Fund	ISIN	Launched	AUM ⁶	Dealing Frequency	AMC Fee	TER
Absolute Return Long only investments in a portfolio of bonds, equities and commodities	Capital Gearing Trust	GB0001738615	1982 ¹	£940m	Listed	0.40% ³	0.55%
	CG Absolute Return (EUR Hedged, USD Hedged available)	IE00BYQ69B30	2016	£830m	Daily	0.35%	0.45%
	Capital Gearing Portfolio (P,V shares)	IE00BG5Q6F12	2001	£250m	Daily	0.75%	0.84%
Real Return Long only investments in index linked bonds	CG Real Return Fund (GBP Hedged available)	IE0034304117	2004	£380m	Daily	0.30% / 0.20% ⁴	0.39%
	CG Dollar Fund (GBP Hedged, EUR Hedged and USD Unhedged available)	IE00B41GP767	2009	£570m	Daily	0.25% / 0.15% ⁵	0.35%
	CG UK Index-Linked Bond Fund	IE000ZSVG218	2023	£12m	Daily	0.15%	0.24%

¹ Peter Spiller began managing Capital Gearing Trust in 1982; ² Capital Gearing Trust is an Investment Trust listed on the London Stock Exchange, all other funds are Open Ended UCITS listed on the Dublin Stock Exchange; ³ Tiered fee structure, marginal rate is 0.3% above £500m; ⁴ 0.3% below £500m, 0.2% above; ⁵ 0.25% below £1,000, 0.15% above; ⁶ As at 30 November 2024

Overview

CGAM Team

Investments & IR



Peter Spiller

Co - Chief Investment Officer



Alastair Laing

CEO, Fund Manager



Chris Clothier

Co - Chief Investment Officer



Hassan Raza, CFA

Portfolio Manager



Emma Moriarty

Portfolio Manager



Jock Henderson

Investment Analyst



Sophia Sednaoui

Head of Investor Relations



Katie Forbes

Head of Investor Relations of CGT

Operations



Chris Taylor

Chief Operations Officer



Prath Ketheeswaran

Operations Apprentice



Jason Barlow

Senior Operations Manager



Finn

Chief Morale Officer

Risk & Compliance



Amber Williams

Head of Compliance



Sindy Somander

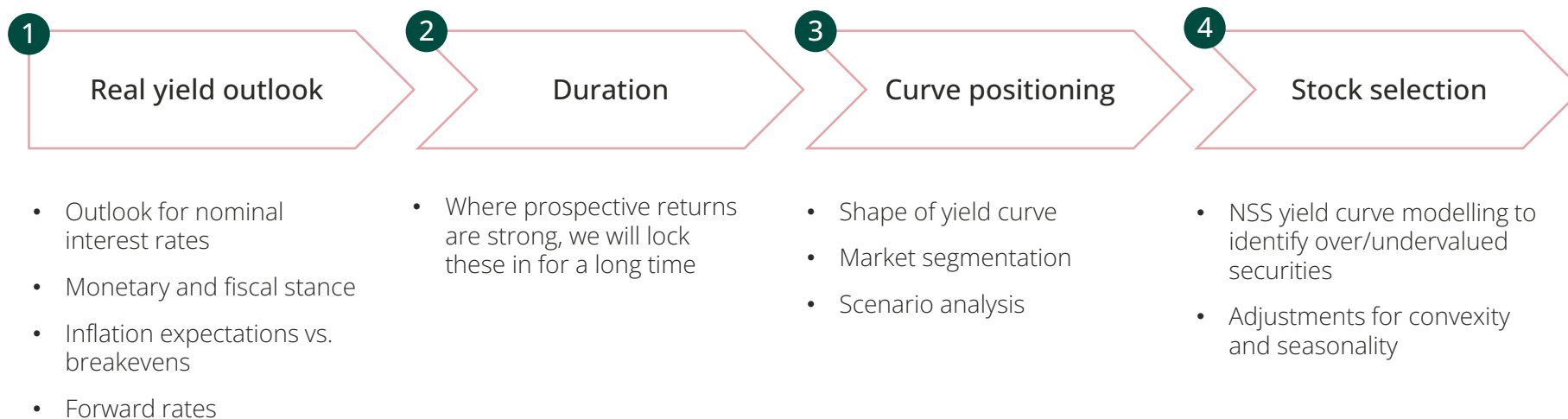
Finance & Reporting Manager

Investment Process

CG UK Index-Linked Bond Fund

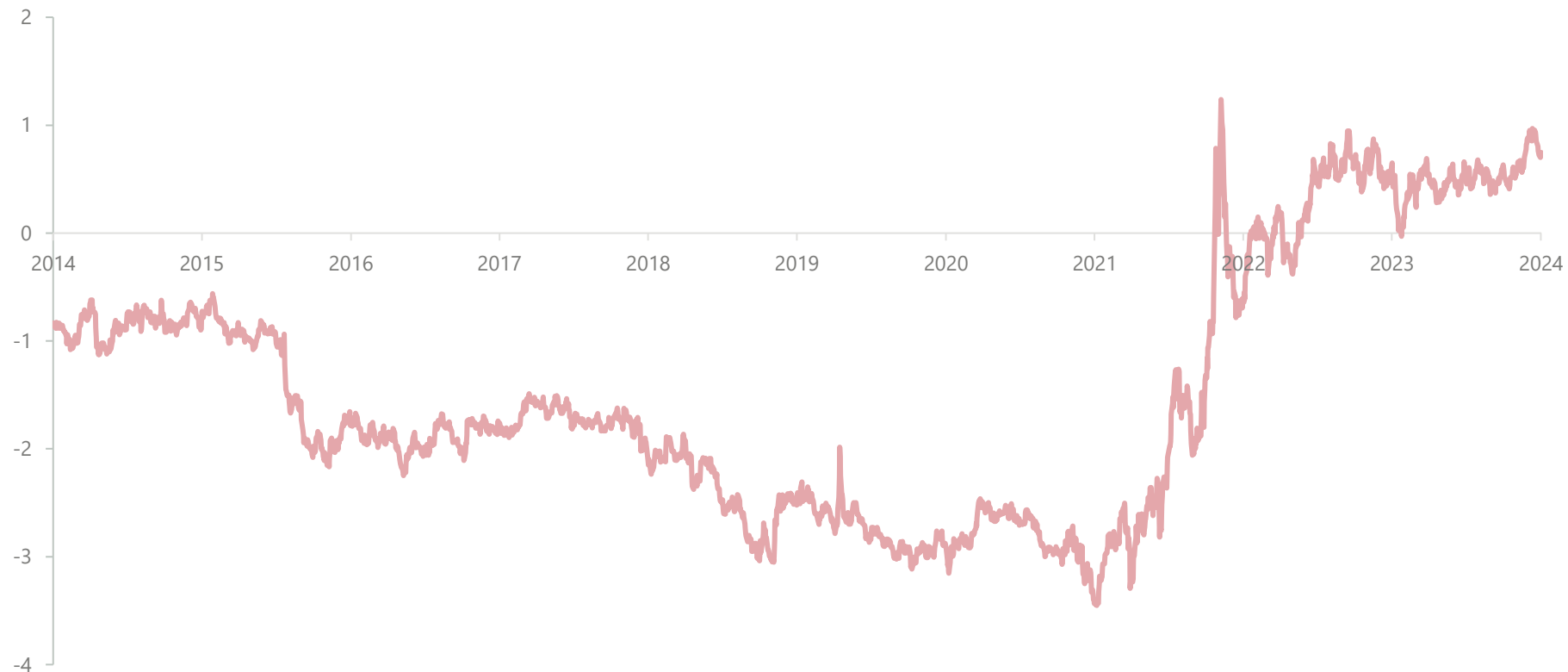
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The CG UK Index-Linked Bond Fund's positioning is decided via a top-down process



Index-linked gilts have gone from being uninvestable to good value

UK 10 Year Real Yield (%)



Source: Bloomberg Finance L.P.

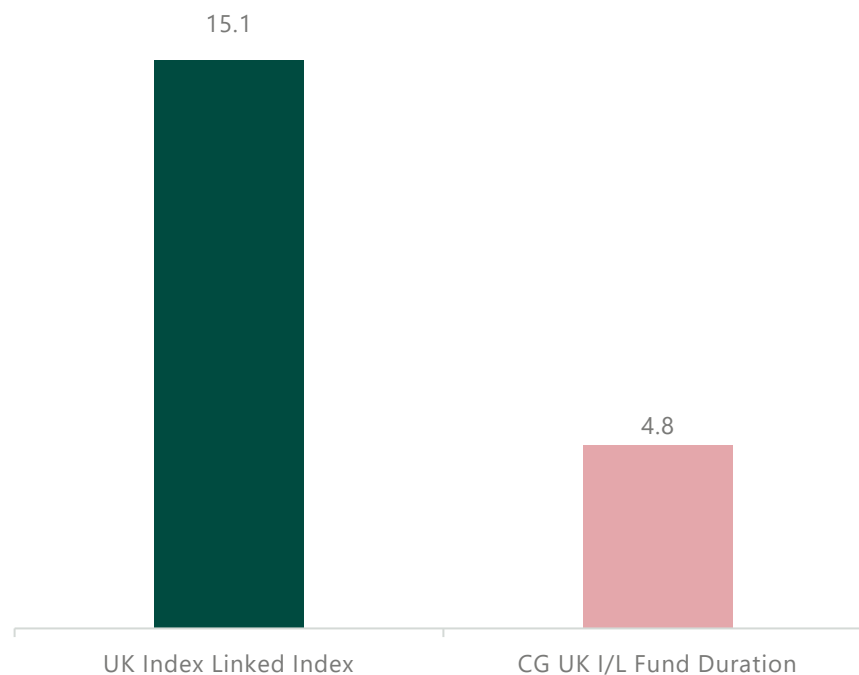
Investment Process

The long duration of the index has created large drawdowns which are inappropriate for private investors. The CG fund is a much shorter duration alternative

UK Index-Linked total return index¹⁾



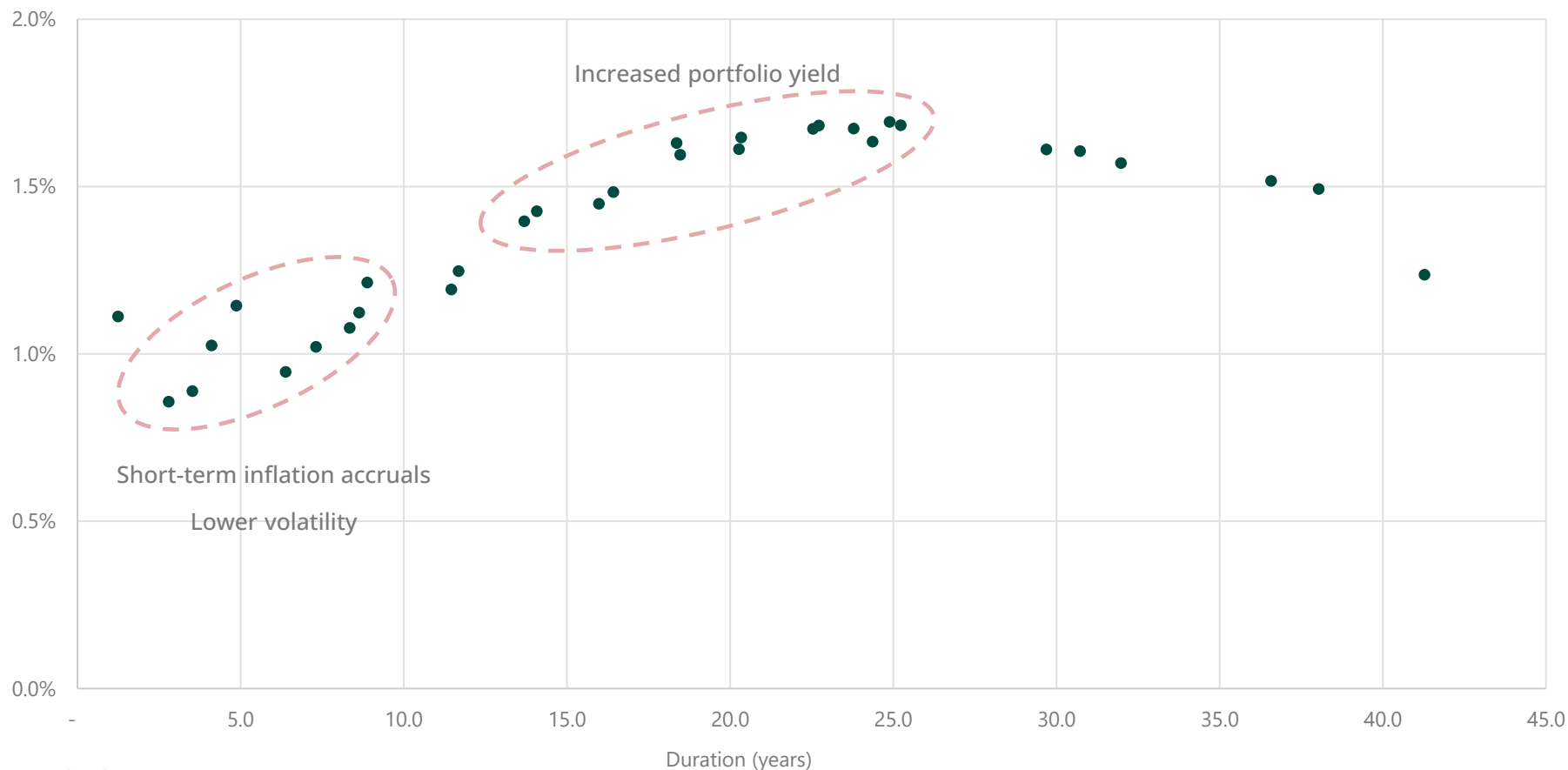
UK Index-Linked Index duration (years)



1. UK Index-Linked Index refers to Bloomberg UK Govt Inflation-Linked All Maturities Total Return Index
Source: Bloomberg Finance L.P.

The shape of the yield curve is driven in part by non-fundamental factors which creates opportunities for active management

CPI-adjusted UK index-linked yield curve

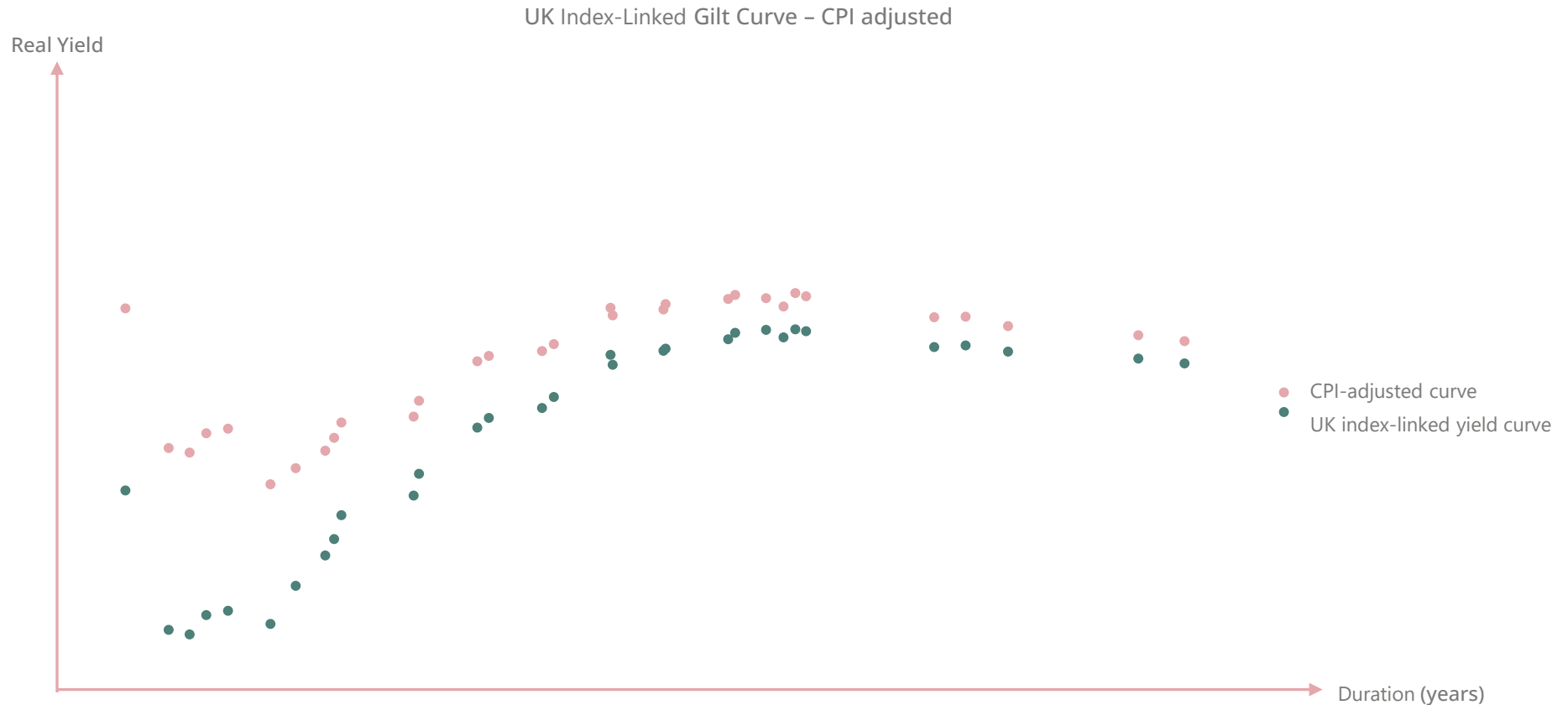


Source: Bloomberg Finance L.P.

We use a Nelson Siegel Svensson formula to identify individual under and overpriced bonds

$$y = \beta_0 + \beta_1 \frac{\left(1 - e\left(-\frac{\mu}{\tau_1}\right)\right)}{\frac{\mu}{\tau_1}} + \beta_2 \left(\frac{\left(1 - e\left(-\frac{\mu}{\tau_1}\right)\right)}{\frac{\mu}{\tau_1}} - e\left(-\frac{\mu}{\tau_1}\right) \right) + \beta_3 \left(\frac{\left(1 - e\left(-\frac{\mu}{\tau_2}\right)\right)}{\frac{\mu}{\tau_2}} - e\left(-\frac{\mu}{\tau_2}\right) \right)$$

We then adjust our expected yields for the RPI / CPI wedge



CG UK Index-Linked Bond Fund

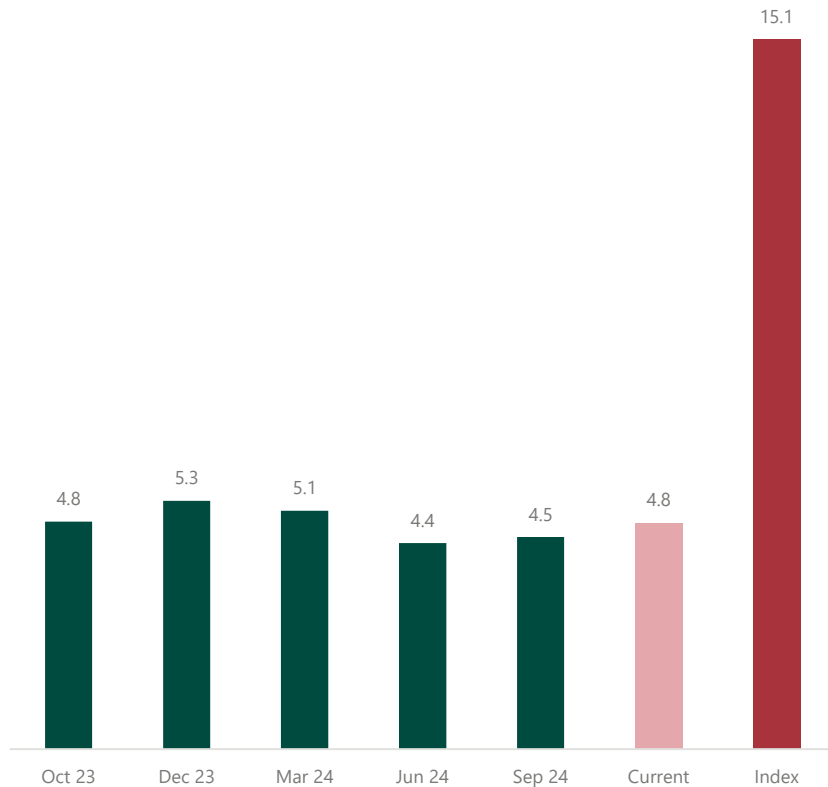
Positioning and Returns

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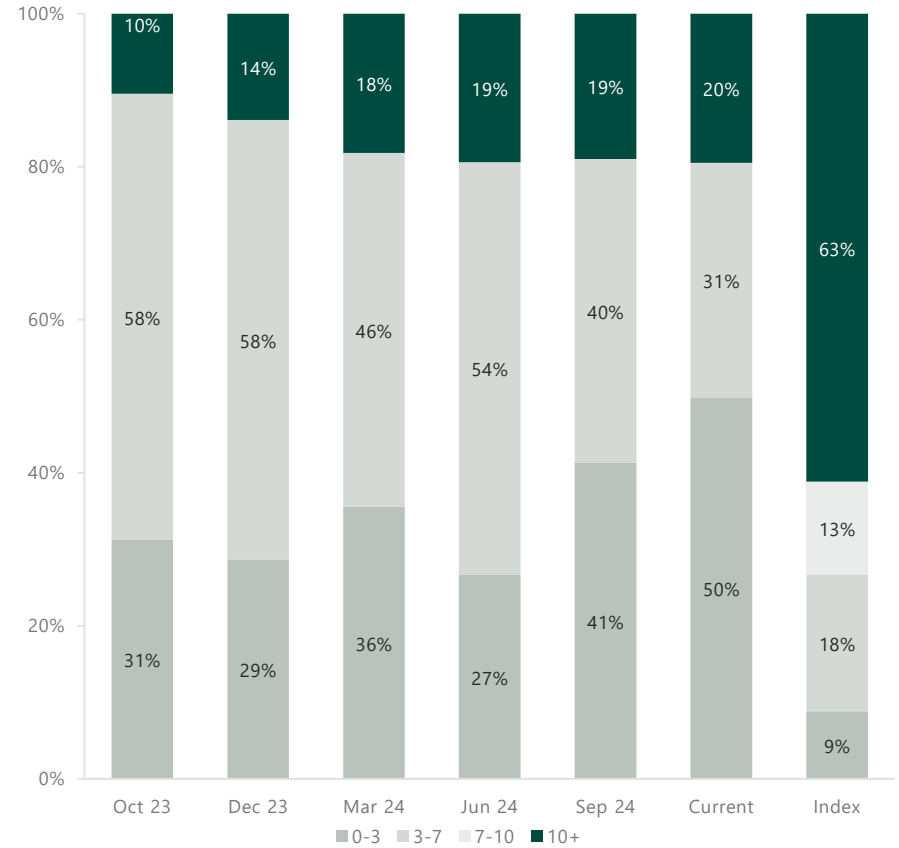
CG UK Index-Linked Bond Fund

The CG UK Index-Linked Bond Fund has duration shorter than the index and its holdings are weighted to the front end of the UK index-linked curve

Portfolio Duration (Years)



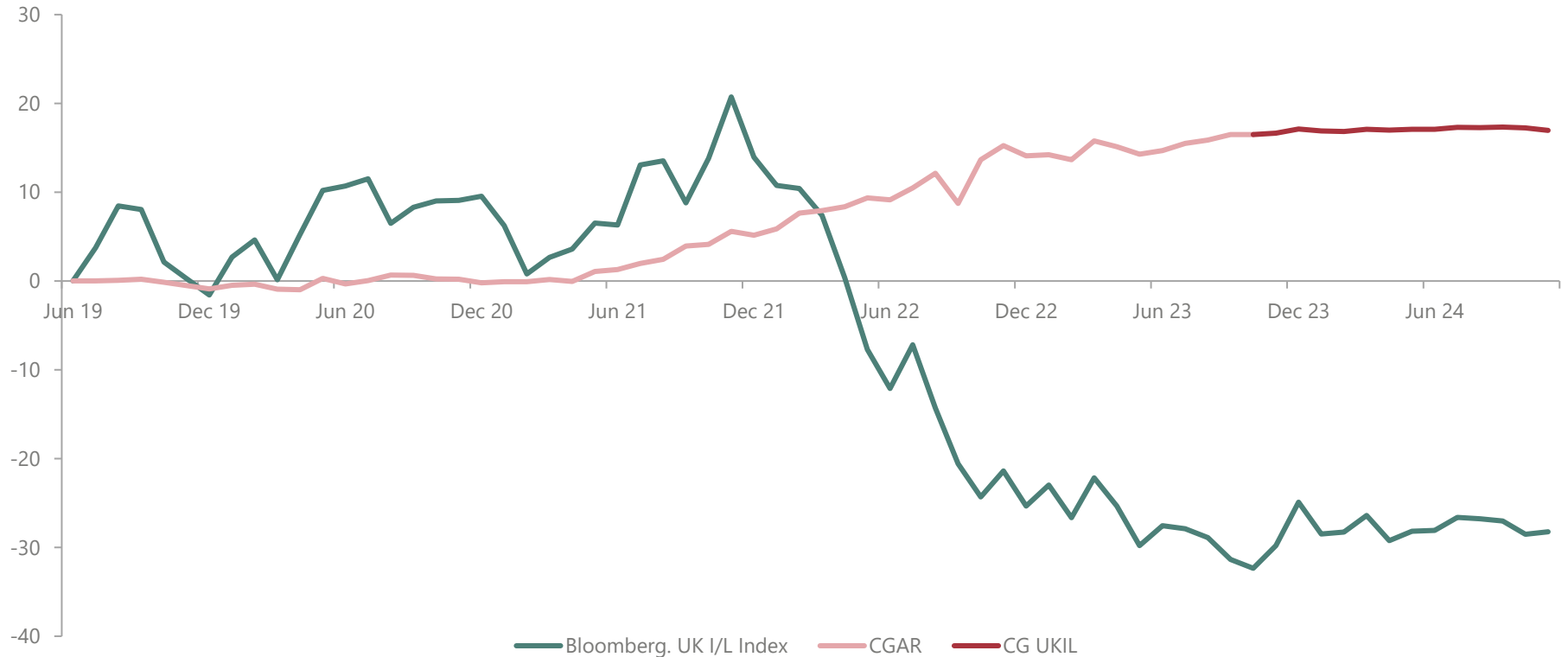
Portfolio Curve Positioning – By Maturity Bucket (Years)



Source: Bloomberg Finance L.P., Northern Trust

Our holdings of UK linkers have dramatically outperformed the index in recent years

CG Performance – UK Linker Holdings



Source: Bloomberg LP, Northern Trust.

Breakdown of holdings

Largest Bond Holdings		Credit ratings		Characteristics	
UK I/L 0.125% 22/03/26	28.6%	AAA	0%	Number of bonds	13
UK I/L 1.25% 22/11/27	18.9%	AA	100%	Yield to maturity (real)	0.5%
UK I/L 0.125% 10/08/28	17.8%	A	0%	Average maturity	5 Yrs
UK I/L 0.125% 22/03/29	12.8%	BBB	0%	Average coupon (real)	0.5%
UKTI 2.00% 26/01/35	9.8%	BB and below	0%	Composite rating	AA

Source: CGAM, Northern Trust

Why index-linked?

The role of index-linked bonds in a multi-asset portfolio

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Why index-linked?

Index-linked bonds are a fundamental component of a diversified portfolio

Inflation as greatest risk to investor wealth

Against which equities are only a partial hedge

Significant risk of inflation persistence

The historical record does not support a swift return to the target

Historic outperformance vs nominal bonds

Such outperformance is likely to persist into the future

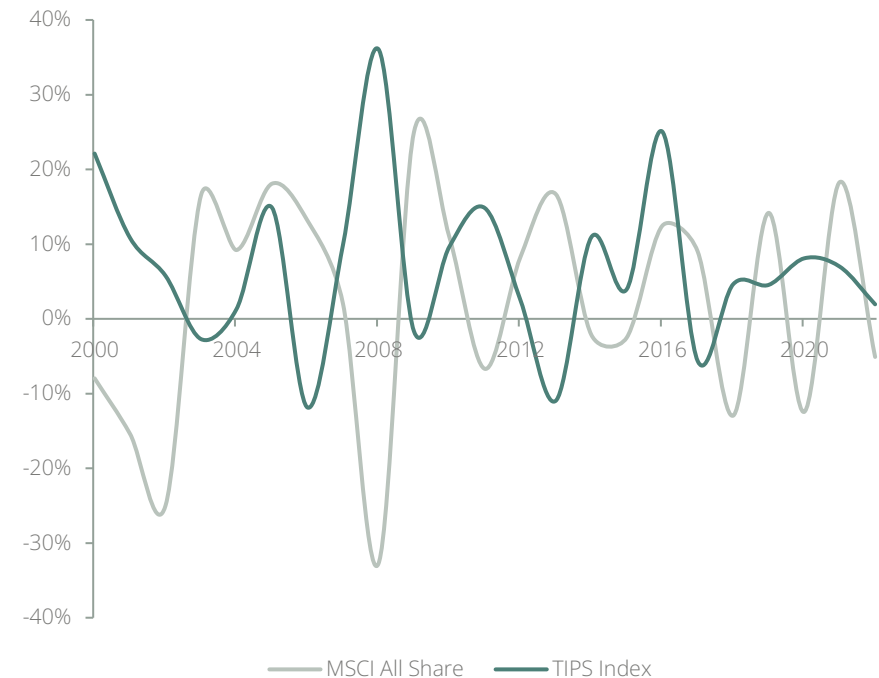
Negative correlation with risk assets

Index linked have, historically proven to be a good hedge against a portfolio of risk assets

Protection against financial repression

Only asset that we believe is likely to deliver protection

Annual Returns % of UK Stocks and TIPS – unhedged in GBP (1998 – 2022)



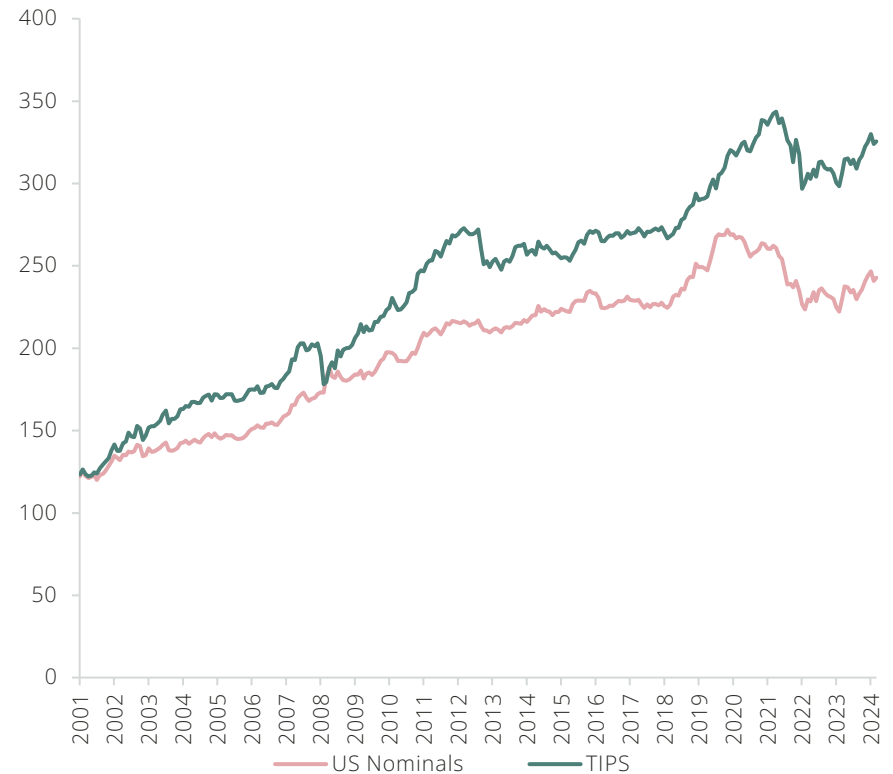
Why index-linked?

Index-linked bonds have outperformed nominal bonds since the turn of the century. Why? Because the market systematically underestimates realised inflation

Index-Linked Bond – Total Returns (UK)



Index-Linked Bond – Total Returns (US)

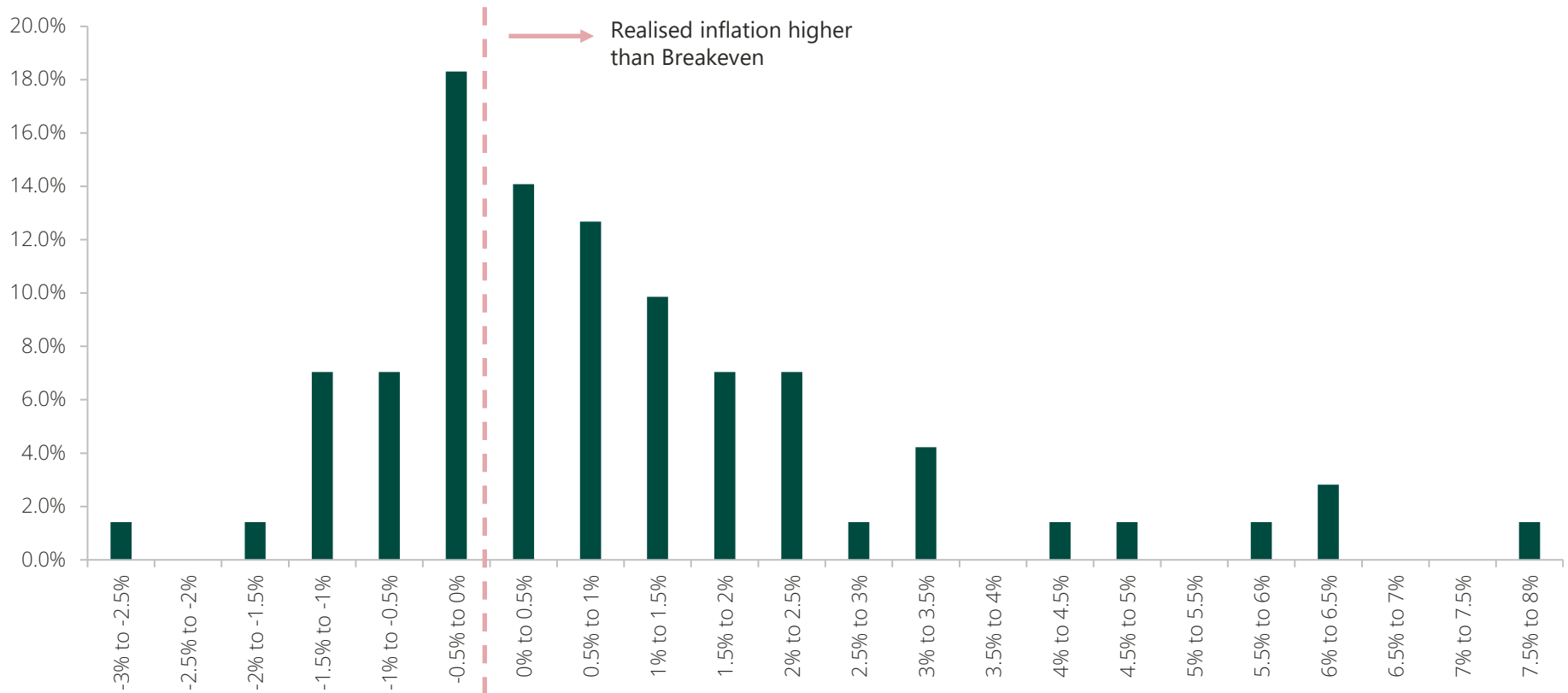


Source: Bloomberg Finance L.P.

Why index-linked?

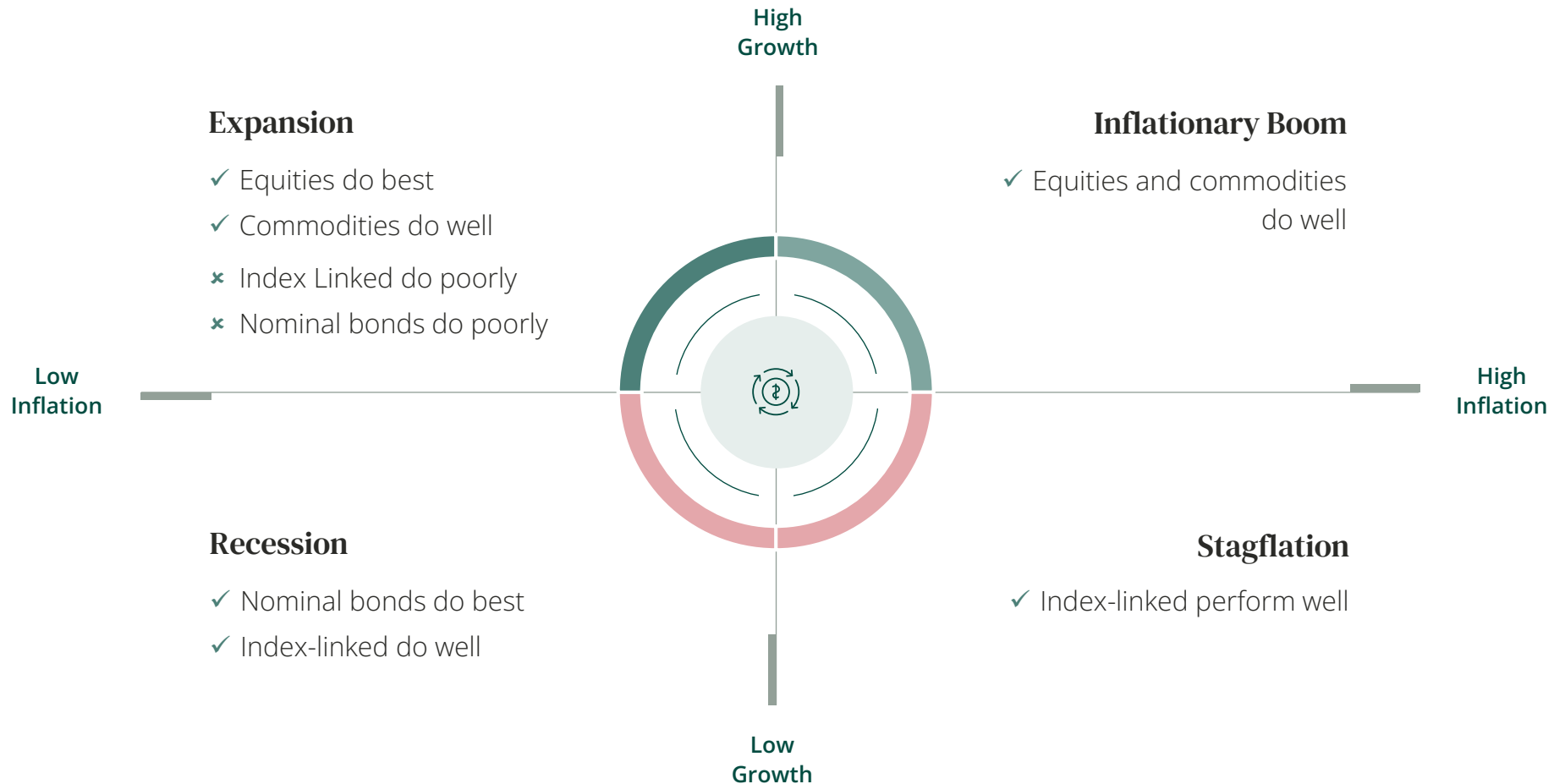
A key reason is that markets routinely underestimate inflation – by an average of 1% since 2004

Difference between 2Y Breakeven and subsequent realised inflation (% annualised)



Why index-linked?

Index-linked bonds perform well in scenarios where equities do not, and are the most reliable portfolio protector against stagflation



CG UK Index-Linked Bond Fund

Approach to Responsible Investing

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The principles underpinning our approach to responsible investment

Be honest

No greenwashing, no PR-led initiatives, no jargon. We believe in an accurate presentation of our activities not a marketing campaign.

One firm, one rule

Our standards apply to all the funds we advise. We do not have ethical and by implication unethical funds.

Ethics, not mathematics

There is no formula that can be applied in a uniform way to every situation. We emphasise judgement over simplistic third party ESG scoring systems.

Don't disinvest, engage

When investors have the influence to effect change, it is most valuable to encourage positive transition rather than engage in blanket disinvestment.

Targeted

As a small firm, we must focus our efforts where they will have the most impact, rather than taking a generalist approach.

Driven by governance

Investors have multiple direct mechanisms to influence governance, so we primarily focus on governance even when the ultimate objective is positive social or environmental change.

Integration, not separation

The entire team is collectively responsible for stewardship activities, with the ultimate responsibility lying with the chief executive. We do not have a standalone responsible investment team.

Act, with humility

Every action results in both intended and unintended consequences. Reflect deeply on the risk that good intentions can lead to unintended negative outcomes.

ESG integration into investment process

Direct Government Securities

A majority of the assets held by the funds are invested in direct holdings of securities issues by governments including bonds, bills and cash.

In order to help access high ESG standards, we consider indices compiled by a range of NGOs and require sovereigns, at a minimum, to achieve strong rankings in at least four out of five of these criteria. In addition to using third party indices we also overlay our own subjective assessments which typically leads to material additional exclusions.

ESG Criteria Applied

Index	Criteria
World Bank governance effectiveness index	Top quartile
World press freedom index	Good or satisfactory
Global freedom score	Free rating
UN human development index	Very high human development rank
Net zero by 2025 statement	Statement of intent by 2050 or earlier

Resultant Investable Universe

United Kingdom	Japan
United States	Canada
Germany	Australia
Sweden	New Zealand
Denmark	

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