
CG Portfolio Fund

Fourth Quarter Report
December 2021

- **Dollar Fund**
- **Real Return Fund**
- **Absolute Return Fund**
- **Capital Gearing Portfolio Fund**

The Yen Conundrum

Reviewing value in currency markets

The joke has it that the US Dollar will sustain its value because its principal competitors are so flawed: the EU is a museum, Japan is an old peoples' home and China is a prison. There is a grain of truth in these characterisations, but the US currency has plenty of challenges itself.

Fashion plays a role in the factors that determine day-to-day reaction functions in the fx market. In the past the dominating factor has varied from relative inflation, relative growth of money supply, balance of trade and anticipation of central bank interventions. Today's dominant fashion is relative nominal interest rates, reflecting an absence of significant inflation in recent years, a reach for yield in all asset classes and the greater financialisation of the global economy. For emerging markets government indebtedness has been important, but that has not typically been a feature of developed markets. In addition, some currencies, notably the US Dollar, have benefited from a safe haven status in a time of crisis. The Yen also can catch a bid in difficult times for asset markets, in part because it's a funding currency and is the beneficiary of short covering in times of distress.

Over the longer term, currencies tend to revert to their fundamental value; that is to say the exchange rate which makes the associated economy competitive but no more; factors affecting this include relative rates of inflation, relative productivity growth and structural change. That makes the Japanese Yen interesting, given it is trading at a five year low and on competitive criteria it is extraordinarily cheap. According to one Bloomberg model the Yen is valued at half its long term level versus the US Dollar. Productivity growth is similar in Japan and the US, but in Japan wage growth has been negligible in recent years, whereas in the US wages are growing at 5% with upwards momentum. Similarly, the CPI in Japan struggles to reach 1.5%, whereas the US CPI, according to the market will rise by 2.8% per year over the next 5 years (a figure we find implausibly low). In other words, if the exchange rate does not move, the Yen will become even more competitive.

There are two negatives to the Yen: demography and government debt. The falling population in Japan is indeed a factor that calls for a low neutral real interest rate and the concomitant rising dependency ratio is also a competitive challenge. This is somewhat offset by high levels of economic activity among the elderly, but nevertheless suggests that the equilibrium exchange rate is lower; just not nearly as low as it is now. Government debt, even after decades of fiscal deficits, is less worrying. The Bank of Japan has purchased government debt to the value 135% of GDP, and these holdings are unlikely to be sold back to the market. If they were replaced by the fabled quadrillion Yen coin, neither growth nor interest rates would be affected. If inflation rises meaningfully beyond the 1% level now forecast for 2022 and 2023, then purchases by the BOJ may be more constrained given a forecast fiscal deficit still close to 5.8%. At worst that would raise long term interest rates, which, *ceteris paribus*, would be supportive of the Yen. The debt/GDP level would not be unduly alarming.

The Yen Conundrum

Reviewing value in currency markets

The explanation for the Yen's weakness lies in the dominance in fx markets of relative nominal interest rates. As the Federal Reserve attempts to maintain credibility, short term interest rates have risen in the US. By comparison there are no expectations for rate rises in Japan hence the Yen has depreciated by 10% in the last year.

So what is the outlook for Dollar/ Yen? The longer an investor's horizon, the more attractive the Yen seems to be, given its solid fundamentals as a store of value. In the shorter term, momentum and the dominance of interest rate differentials suggest caution. Given our base case of higher-than-consensus inflation in the US, it is likely that the interest rate differential will increase over the next couple of years. However we are long term value focused investors. Currency misalignments this extreme are rare.

Peter Spiller

December 2021

Fund information as at:
31st December 2021

Fund price:
£175.26

Status:
Open

Investment objective

To achieve real returns through long only investment in Treasury Inflation Protected Securities (US government index linked bonds).

Fund information

Fund Size	£1,042m
Class Size	£335m
Dividend Yield	< 2%
Management Fee < £1bn	0.25%
Management Fee > £1bn	0.15%
Total Expense Ratio	0.34%

Return history (total returns)

1 month	-2.2%	2021	6.0%
3 months	2.0%	2020	8.6%
6 months	6.4%	2019	4.9%
Year to date	6.0%	2018	4.9%
1 year	6.0%	2017	-6.3%

Largest holdings

US I/L 0.375% 15/07/27	4.4%
US I/L 0.75% 15/02/45	4.0%
US I/L 1.375% 15/02/44	3.5%
US I/L 0.625% 15/01/26	3.5%
US I/L 0.125% 15/04/25	3.5%

Performance since inception (total return)



Credit ratings

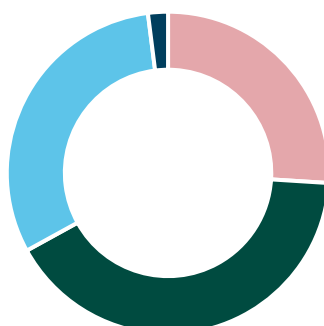
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	46
Yield to Maturity (real)	-1.3%
Average Maturity	9.6 Yrs
Average coupon (real)	0.9%
Composite rating	AAA

Maturity analysis

10+ Years	26%
5-10 Years	41%
0-5 Years	31%
Cash	2%



Duration history

31 Dec 21	8.7
30 Sep 21	8.5
30 Sep 20	10.3
30 Sep 19	8.9
30 Sep 18	7.4
30 Sep 17	6.8

Dollar Fund

December 2021

Forecasting economic outcomes is not easy. At the start of 2021 the consensus amongst ~~tarot-card~~ readers economists for US CPI inflation was 2%, a level consistent with the Feds own "dot plot" projections. This consensus turned out to wildly underestimate inflation which accelerated into the year-end running at a red hot 7%, the highest level in 40 years. Notwithstanding our long standing concerns around inflation risks, not even we foresaw this 5% upside inflation shock as a likely scenario. The combination of overconfidence by investors in their capacity to forecast inflation, combined with asymmetric risk of upside inflation shocks is exactly what makes index linked bonds so attractive relative to nominal treasuries.

So how was this shock reflected in bond market returns? In 2021 TIPS outperformed nominal treasuries by 8%, continuing their consistent track record since first issuance in 1996 of delivering higher returns with lower risk. US treasuries, US corporate debt and global aggregate bond indices all delivered negative returns, respectively -2%, -1% and -5%. The only surprise was that the losses were not greater. It is clear that, even though the Federal Reserve ceased to describe inflation as transitory, market participants still believe in a return to "normal" levels in the near future. TIPS displayed their defensive qualities delivering a solid 6% despite the rising interest rate environment. Strong in-year inflation accruals increased the principal value of the bonds and modestly widening breakeven helped to offset the interest rate rises.

What can we say about inflation prospects for 2022? There are signs that some of the supply chain disruptions are moderating, particularly as the omicron disruption seems less severe than earlier Covid waves. US producer price inflation actually declined in month-on-month terms in December 2021 for the first time since spring 2020. Other moderating factors are the receding base effects of the early 2021 oil price rises. Energy prices have been on a tear in the first few weeks of 2022 but even at current

price levels the rate of commodity related price increases will slow materially. These factors all point to inflation peaking at some point in the next couple of months.

Not all factors are pointing towards slowing inflation. The most important of these is housing/shelter which makes up a third of the CPI index and increased by 4% in 2021. New rental agreements are being struck 12% higher, however there are lags to these showing up in CPI. It seems plausible that shelter CPI will increase by 6% - 8% in 2022. These rental increases are likely to be supported by wage growth which ended the year at 4.5% with upwards momentum. Survey data covering jobs openings, job switching and plans to increase wages are at record highs. It is notable that the highest wage increases are occurring for the young, low skilled and the lower paid, in sharp contrast to the experience of the last decade. This matters as lower earners are more likely to increase consumption spending with wage growth, unlike higher earners who are more likely to save. This wage growth profile may well prove an inflation tail wind for rents, consumer staples and certain categories of consumer durables, moderating some of the disinflationary effects of supply chain normalisation.

These are the main reasons that professional forecasters expect inflation in 2022 of 4.6%, higher than market derived inflation forecasts of 3.5%. In an attempt to avoid looking foolish, we don't make forecasts but our sense is that the professionals are wise to anticipate greater stickiness in inflation. Longer breakevens also continue to look attractive, given they imply that in five years time inflation will be below the Federal Reserve's target. This is certainly possible but we cannot see anything in the current environment that suggests it is probable. Or to express it in value terms, investors in TIPS do not have to pay any insurance premium for the safety they enjoy from inflation. This gives us confidence that TIPS will continue to outperform conventional treasuries over the medium term.

Fund information as at:
31st December 2021

Fund price:
£111.26

Status:
Open

Investment objective

To achieve real returns through long only investment in Treasury Inflation Protected Securities (US government index linked bonds). All US dollar currency exposure is hedged back to Pound Sterling.

Fund information

Fund Size	£1,042m
Hedged Class Size	£612m
Dividend Yield	< 2%
Management Fee < £1bn	0.25%
Management Fee > £1bn	0.15%
Total Expense Ratio	0.34%

Return history (total returns)

1 month	0.1%	2021	5.2%
3 months	2.5%	2020	10.5%
6 months	4.3%	2019	7.4%
Year to date	5.2%	2018	-2.6%
1 year	5.2%	2017	1.4%

Largest holdings

US I/L 0.375% 15/07/27	4.4%
US I/L 0.75% 15/02/45	4.0%
US I/L 1.375% 15/02/44	3.5%
US I/L 0.625% 15/01/26	3.5%
US I/L 0.125% 15/04/25	3.5%

Performance since inception (total return)



Credit ratings

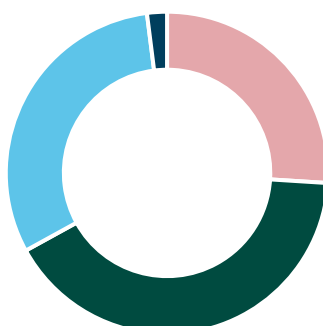
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	46
Yield to Maturity (real)	-1.3%
Average Maturity	9.6 Yrs
Average coupon (real)	0.9%
Composite rating	AAA

Maturity analysis

10+ Years	26%
5-10 Years	41%
0-5 Years	32%
Cash	1%



Duration history

31 Dec 21	8.7
30 Sep 21	8.5
30 Sep 20	10.3
30 Sep 19	8.9
30 Sep 18	7.4
30 Sep 17	6.8

Fund information as at:
31st December 2021

Fund price:
£106.75

Status:
Open

Investment objective

To achieve real returns through long only investment into a global portfolio of government index linked bonds outside the United Kingdom.

Fund information

Fund Size	£620m
Class Size	£144m
Dividend Yield	< 3%
Management Fee < £500m	0.30%
Management Fee > £500m	0.20%
Total Expense Ratio	0.39%

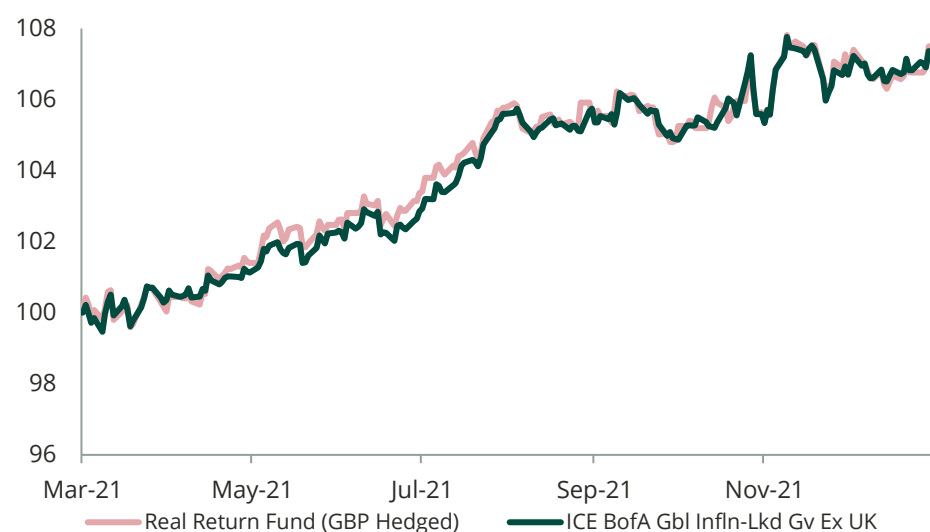
Return history (total returns)

1 month	0.2%	2021	N/A
3 months	2.5%	2020	N/A
6 months	4.0%	2019	N/A
Year to date	0.0%	2018	N/A
1 year	0.0%	2017	N/A

Largest holdings

US I/L	2.00%	15/01/26	3.8%
US I/L	1.00%	15/02/46	3.6%
US I/L	0.75%	15/02/45	3.6%
US I/L	2.375%	15/01/27	3.6%
US I/L	1.375%	15/02/44	3.4%

Performance since inception (total return)



Credit ratings

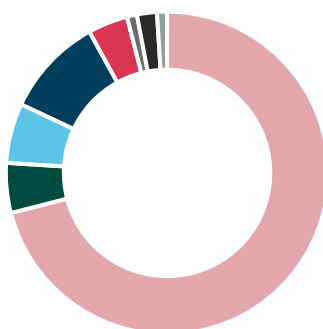
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	66
Yield to Maturity (real)	-1.4%
Average Maturity	9.4 Yrs
Average coupon (real)	1.0%
Composite rating	AAA

Asset allocation

USA	71%
Sweden	5%
Japan	6%
Germany	10%
Canada	4%
Denmark	1%
Australia	2%
Cash	1%



Duration history

31 Dec 21	8.7
30 Sep 21	8.6
30 Sep 20	8.6
30 Sep 19	7.6
30 Sep 18	6.4
30 Sep 17	6.2

Fund information as at:
31st December 2021

Fund price:
£210.88

Status:
Open

Investment objective

To achieve real returns through long only investment into a global portfolio of government index linked bonds outside the United Kingdom.

Fund information

Fund Size	£620m
Class Size	£475m
Dividend Yield	< 3%
Management Fee < £500m	0.30%
Management Fee > £500m	0.20%
Total Expense Ratio	0.39%

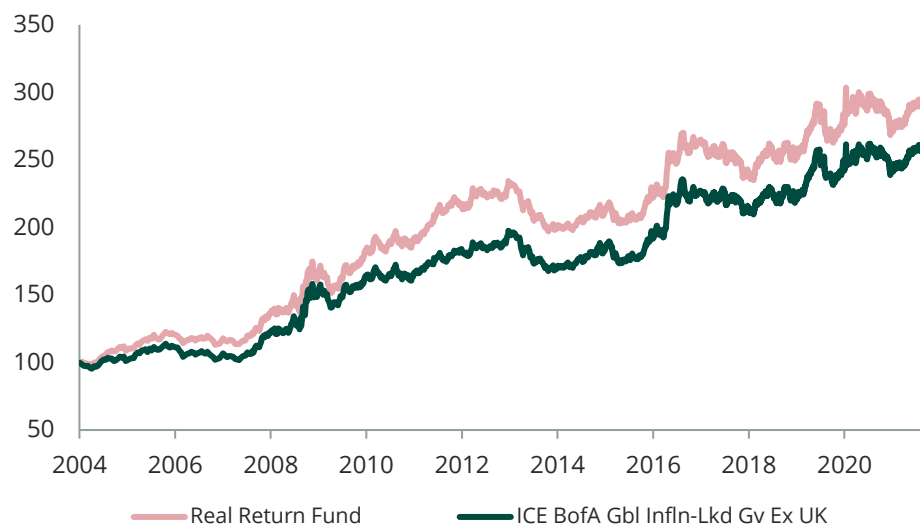
Return history (total returns)

1 month	-1.9%	2021	4.1%
3 months	1.5%	2020	8.0%
6 months	5.3%	2019	2.6%
Year to date	4.1%	2018	3.5%
1 year	4.1%	2017	-4.4%

Largest holdings

US I/L 2.00%	15/01/26	3.8%
US I/L 1.00%	15/02/46	3.6%
US I/L 0.75%	15/02/45	3.6%
US I/L 2.375%	15/01/27	3.6%
US I/L 1.375%	15/02/44	3.4%

Performance since inception (total return)



Credit ratings

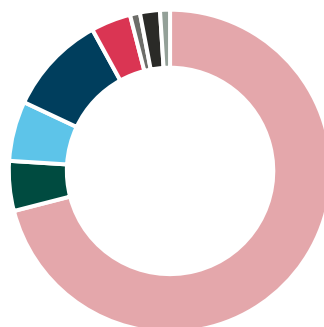
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	66
Yield to Maturity (real)	-1.4%
Average Maturity	9.4 Yrs
Average coupon (real)	1%
Composite rating	AAA

Asset allocation

USA	71%
Sweden	5%
Japan	6%
Germany	10%
Canada	4%
Denmark	1%
Australia	2%
Cash	1%



Duration history

31 Dec 21	8.7
30 Sep 21	8.6
30 Sep 20	8.6
30 Sep 19	7.6
30 Sep 18	6.4
30 Sep 17	6.2

Real Return Fund

December 2021

Outside of war and revolution inflation is the only real threat to investors in government bonds¹. For long duration bonds the pain is twofold. First inflation erodes the nominal purchasing power of the bond. Second inflation causes yields to rise in response to, or in anticipation of, rising short term nominal rates. The final sting in the tail is that this latter effect is exacerbated by rising term premia. These reasons should be sufficient for preferring index-linked bonds over nominals for a portfolio of any meaningful duration.

There is another reason too: portfolio construction. Most private investors hold government bonds as a hedge against their portfolio of equities. Dimson & Marsh have demonstrated that both equities and nominal bonds tend to perform poorly in periods of high inflation. So just when investors most need the stock/bond correlation to be negative, the relationship flips the other way.

In 2021, we saw the beginnings of these advantages: a global portfolio of index linked bonds outperformed its nominal counterpart by 8.7%, a huge margin for such staid instruments. The Real Return Fund's outperformance was nearly identical, returning 4.1% in absolute terms over the year.

Surely, such outperformance isn't repeatable? Nothing is certain, though we suspect the outperformance could continue. The source of the majority of that outperformance was high inflation accruals. Breakevens did rise but remain consistent with a transitory inflation picture, followed by returns to central bank targets. Should inflation prove more persistent then the outperformance will continue as both realized inflation outpaces short term breakevens and longer breakevens rise as investors become concerned that inflation becomes embedded.

Over the course of 2021, we got more right than we got wrong. Our overweights to the US Dollar and Swedish Krona vs. the Euro proved profitable. We also modestly trimmed duration in the second half of the year in response to falling yields. Yields have since risen materially. With hindsight we should have done more.

We made two main mistakes, the first was to reinvest the proceeds of a redeeming Canadian bond into longer duration Canadian Real Return Bonds, though we remain much shorter than the Canadian index, so far this has proved to have been a mistake.

Our second mistake was to increase our weighting to Japan from 5% to 6% over the course of the year only to see it depreciate by 11% throughout the year. As Peter sets out in his letter, the Yen appears to offer extraordinary value relative to other G7 currencies. Relative currency valuations are somewhat nebulous so technical factors and momentum tend influence their movements in the shorter term. In absolute terms, the cost to the fund was modest, but we hate losing money in any amount. As Peter says, the longer term your time horizons, the more you want to own Yen. Over time we expect that its value will come to be realised.

¹ This assumes that the issuers in question are monetarily sovereign as in the case for all issuers whose bonds are owned by the Real Return Fund

Fund information as at:
31st December 2021

Fund price:
£141.75

Status:
Open

Investment objective

To achieve absolute returns through asset allocation across equities, bonds and commodities. In most cases bond investments are made directly and equity investments via collective funds such as ETFs and listed closed ended funds.

Fund information

Fund Size	£857m
Dividend Yield	< 1.5%
Management Fee	0.35%
Total Expense Ratio	0.44%
Comparator Index	GBP SONIA

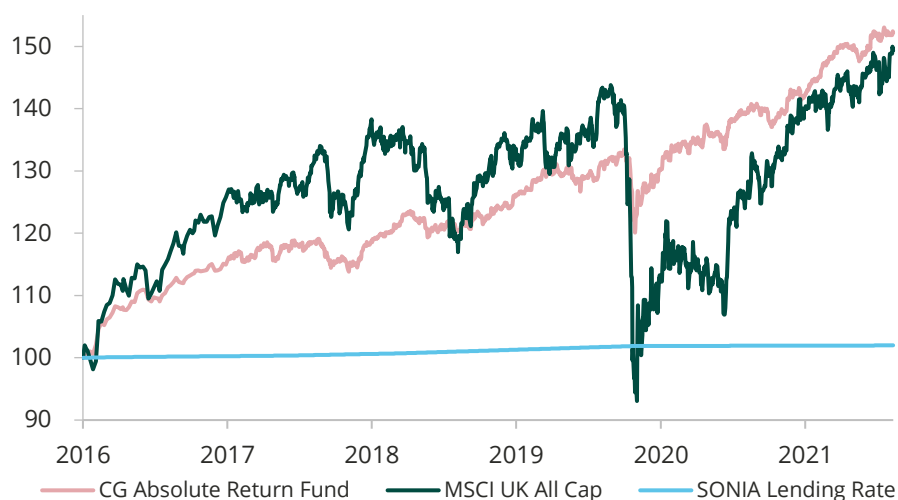
Return history (total returns)

1 month	0.8%	2021	8.9%
3 months	2.2%	2020	7.2%
6 months	4.9%	2019	8.2%
Year to date	8.9%	2018	1.5%
1 year	8.9%	2017	6.3%

Largest fund/equity holdings

Ishares MSCI JP ESG Screened ETF	4.6%
Ishares FTSE 100 ETF	3.3%
Vonovia	2.3%
Grainger	2.2%
Secure Income	2.0%

Performance since inception (total return)



Largest bond holdings

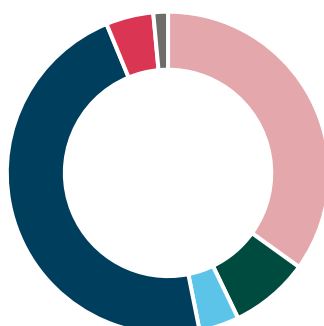
UK I/L 0.125%	22/03/24	4.8%
US I/L 0.625%	15/02/46	1.4%
US I/L 1.375%	15/02/44	1.3%
UK I/L 0.00%	28/02/22	1.3%
US I/L 1.00%	15/02/46	1.2%

Currency exposure

GBP	49%
USD	28%
SEK	5%
EUR	9%
JPY	8%
Other	2%

Asset allocation

Index Linked Gov't Bonds	35%
Conventional Gov't Bonds	8%
Pref Shares / Corp Debt	4%
Funds / Equities	46%
Cash	5%
Gold	1%



Fund/equity breakdown

Equities	19%
Property	18%
Loans	3%
Infrastructure	4%
Private Equity / Hedge	2%

Absolute Return Fund

December 2021

Despite its challenges, 2021 will be remembered as a great year for humanity. Almost 8.5bn doses of Covid-19 vaccine were administered helping to protect almost three quarters of the global population. This is a truly staggering achievement which underpinned a huge economic recovery, mercifully confounding concerns about persistent mass unemployment. The cherry on the cake was recent research suggesting that cheese isn't actually bad for you¹. In this spirit of unvarnished optimism this report will focus purely on what went right for the multi asset funds in 2021. For those interested in what went wrong, the pessimistic yin to this optimistic yang can be found in the Capital Gearing Portfolio Fund report.

During a year that included a notable inflation shock the portfolio benefited from its extensive exposure to inflation linked equities and bonds. The seeds of this bountiful harvest were sown in the aftermath of the Covid bear market of 2020. In those dark days many investors were focused on the risks of deflation and nervous that the pandemic had undermined the prospects for all property. This opened up a buying opportunity in alternative property companies, namely those in the logistics and residential subsectors ("beds and sheds"). These assets are characterised by strong asset backing, high levels of revenue visibility and inflation protection; all characteristics that were in strong demand in 2021. Holdings like Secure Income Reit plc, GCP Student Living plc, Tritax Big Box plc and Urban Logistics plc delivered close to or in excess of 40% during 2021. That these "tech" like returns were available on such low risk assets was truly extraordinary.

At its peak during the year our property holdings represented more than 22.5% of the total portfolio, although by year end this level was reduced to 17.5%. Many of our large holdings had moved from significant discounts to premia. Fully three holdings had been exited completely due to successful bid activity. The proceeds of these sales were invested into infrastructure assets, with a particular focus on renewable energy. Unlike property

companies, infrastructure had a lacklustre first half 2021 with many renewable energy companies derating by as much as 30% from their late 2019 highs. This derating fortuitously coincided with a surge in power prices so provided an attractive entry point. Our infrastructure portfolio, which now represents 6% of our portfolio, delivered 6% returns in the last quarter of the year and still enjoys a strong tailwind. We also increased our broader energy and power holdings via specialist ETFs which have delivered even stronger returns since purchase.

The most notable area of relative outperformance came from our bond portfolio and again the inflation linking was key. The wider bond market endured a poor year, with an inflation shock causing a sell off in nominal bonds. UK gilts delivered -5% and the global aggregate bond index delivered -2% (all returns reported in sterling). Our bond portfolio delivered 4% with the stand out performers being our 20% holding in US TIPS which returned 6%. TIPS were protected from the nominal bond sell off by a combination of strongly positive in-year inflation accruals and rising break evens which collectively more than offset the nominal sell off. We believe that inflation is likely to remain more sticky than the market is currently forecasting again in 2022. If so TIPS, and our other inflation linked bond holdings are well placed to outperform conventional bonds for another year. Corporate credit and preference shares account for a shrinking portion of the overall portfolio but made a helpful contribution. They returned 5%, considerably outperforming the sterling corporate credit market which returned -3%.

So whether by luck or by judgement much of the portfolio positioning in 2021 worked well and risk adjusted returns were strong. The portfolio starts 2022 defensively positioned, with a focus on inflation protection and value equities. Those with an optimistic predilection should stop reading now. Those more interested in examining our shortcomings should read on to the next report.

¹ Great News, America: Cheese Isn't Bad for You. Wired Magazine Feb 2021. Please do not change your dietary approach on the basis of this evidence

Fund information as at:
31st December 2021

Share prices:
P shares £39,558
V shares £192.39

Status:
Hard Closed

Investment objective

To achieve absolute returns through asset allocation across equities, bonds and commodities. Equity investments are made in quoted closed ended trusts and other collective investment vehicles.

Fund information

Fund Size	£427m
Dividend Yield	< 1%
Management Fee	0.75%
Total Expense Ratio	0.84%
Comparator Index	3m Libor

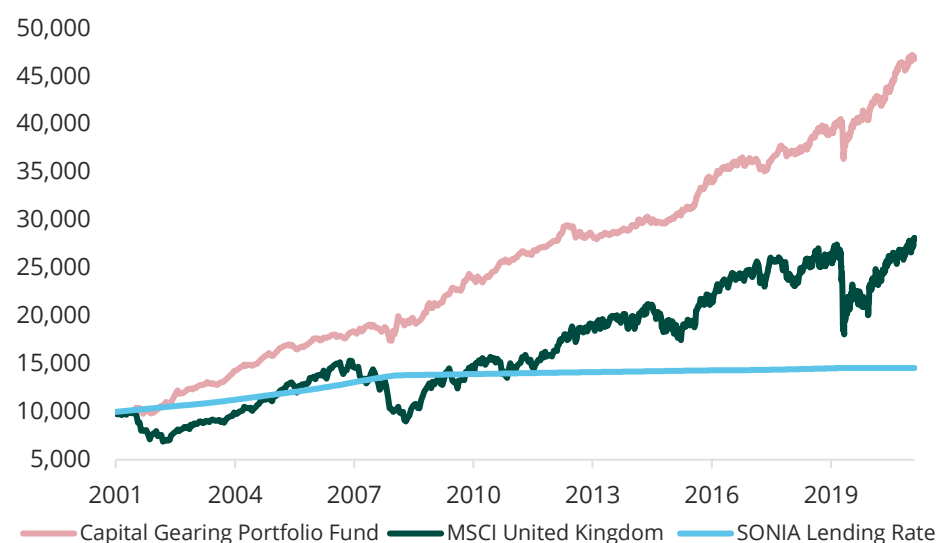
Return history (total returns)

1 month	0.7%	2021	10.3%
3 months	2.1%	2020	7.3%
6 months	5.0%	2019	7.6%
Year to date	10.3%	2018	1.5%
1 year	10.3%	2017	4.9%

Largest fund/equity holdings

Ishares MSCI JP ESG Screened ETF	4.3%
North Atlantic Smaller co's	4.2%
Vonovia	2.5%
Grainger	2.5%
Secure Income	2.1%

Performance since inception (total return, P Shares)



Largest bond holdings

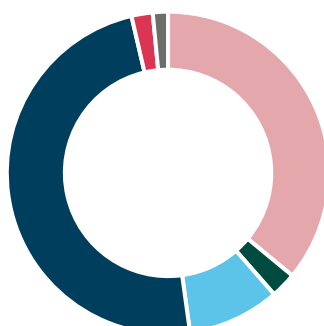
UK I/L 0.125%	22/03/24	4.5%
US I/L 2.375%	15/01/27	2.1%
SWEDEN I/L 0.25%	01/06/22	1.7%
US I/L 2.00%	15/01/26	1.7%
US I/L 3.875%	15/04/29	1.5%

Currency exposure

GBP	49%
USD	28%
SEK	5%
EUR	9%
JPY	8%
Other	2%

Asset allocation

Index Linked Gov't Bonds	36%
Conventional Gov't Bonds	3%
Pref Shares / Corp Debt	9%
Funds / Equities	48%
Cash	3%
Gold	2%



Fund/equity breakdown

Equities	18%
Property	19%
Loans	4%
Infrastructure	4%
Private Equity / Hedge	3%

Capital Gearing Portfolio Fund

December 2021

In fund management it is a relatively straightforward task to account what has gone right. To say what has gone wrong is an Augean task. The potential number of portfolios that we might select for our clients is, for all practical purposes, infinite; even when allowances are made for our mandate and good risk management. Nevertheless, what follows is an attempt to honestly critique our decision making over the past year. In a year where a significant majority of the portfolio appreciated in value, it is inevitable that the sins of omission will outweigh the sins of commission in severity. We shall deal with the sins of omission first.

Our longstanding underweight to US equities once again proved expensive as the S&P 500 delivered a return of 28% in sterling terms. The S&P 500 accounted for fully 18% of the 23% returned by the MSCI World index. As in previous years, good stock selection elsewhere has allowed us to keep pace with the MSCI World with, we believe, somewhat less risk. Nevertheless, our job would have been far easier without this headwind. Conversely our substantial overweight to Japanese equities – which delivered a positive return of just 2% was a major drag on performance.

Perhaps the least forgivable mistake, given our well known views on inflation, related to sterling cash management. At the end of the year we held around 5% in cash and treasury bills vs. 6% in short dated UK index-linked. These latter delivered extraordinary returns of 5.4% over the year with, given their short duration, very little risk. Our enthusiasm for “linkers” had been tempered by the high starting level of breakevens in the UK. We weren’t completely asleep at the wheel and bought around 80 million nominal across the multi-asset funds throughout the year. We clearly should have bought far more.

Turning to the sins of commission, the first was our index-linked holdings outside of the US and UK. With the US Dollar in ascendancy throughout 2021 – and Sterling

the only major currency (nearly) keeping pace with it – our diversification into Japanese, Australian and Swedish index-linked provided the worst kind of diversification: outright losses. Japan has been particularly frustrating. We initially began buying JGBs immediately after the Covid crisis in April and May 2020, attracted by the positive real yields which at the time were unique among the G7. We added further in spring 2021 on Yen weakness. In local currency terms the bonds have performed very well, meanwhile the Yen has depreciated to a five year low to the US dollar.

Only one meaningful risk asset position in the portfolio delivered negative returns in 2021: German residential property. Some of the malaise was idiosyncratic (Vonovia carried out a large, deeply discounted rights issue to finance its purchase of Deutsche Wohnen; Adler, which we held in very small size, became the target of short sellers) but even stalwart stocks like LEG lost us money. There are some crumbs of comfort: this sector has been a fantastic long-term performer for the fund; and our one major overweight – Phoenix Spree Deutschland – returned 21%. Today the German residential stocks offer a beacon of good value in a dark, expensive world.

Finally, we come to two errors which are each other’s mirror. The first is cash: we held too much of it. It is a counterintuitive feature of inflationary periods that cash can be one of the best performing asset classes. Inflation’s biggest threat is not to real value of cash but to the repricing of long duration assets both through rising term premia and the stickiness of the nominal return on corporate capital. Until that repricing occurs, and its option value comes good, cash is painful to hold. And the mirror? Nearly everything we sold, given the strong performance of most of our portfolio, we did in error. Yet for all these mistakes, the fund returned 10.3% in the year and is trading close to a record high. We hope to make better decisions this year. Even if we are successful, the high starting level of asset prices means the returns will likely be worse.

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