CG Portfolio Fund

Q1 2024 Report

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The Future of Investment Trusts

Through no fault of their own, a majority of investment trusts "(ITs)" are no longer viable as vehicles for investing personal savings into equities or indeed alternative assets. In part, that is no more than a reflection of the drying up of liquidity in all smaller and mid-sized UK companies. That in turn has been driven by several factors: lack of research, the regulatory environment and the concentration of wealth managers who have been the natural buyers of trusts. Opinions vary as to the minimum size, ceteris paribus, that allows a trust to play an efficient role in the savings and investment process. Somewhere between £550-£700 million is plausible. Currently 248 trusts out of a total of 380 have a market cap of less than £600 million.

So how does the IT movement thrive from here? The first thing to say is that it should thrive. The long history of investment returns from ITs has far outpaced those of open-ended funds. Indeed, the record of Capital Gearing Trust has largely been built on the outperformance of ITs. Furthermore, the existence of a board of directors should represent the interests of shareholders where those interests differ from those of the fund manager.

The second fundamental factor is that all discounts have been voluntary since 2000, following changes in regulation (a raised hat to Robin Angus, originally Wood Mackenzie, for pointing this out). Some in the City will be sad to see discounts disappear, viewing them as opportunity. By contrast, we believe that most retail investors, the natural market for ITs, view them as a threat, and that is particularly true when such investors are invited to buy shares at a premium, as they must if the movement is to grow. The history of issuance has been one characterised by features to reassure new shareholders that this threat is limited. As an example, continuation votes were intended to ensure that a trust with a significant discount after a set period, often 5-7 years, would be wound up. It didn't turn out that way. It has not been unknown for ITs on large discounts and with an "unlucky" long-term record to be waved through. More recently, the trend has been to assure investors that the discount would not be allowed to exceed a specified level, say 5% or occasionally 10%. These too have been honoured in the breach by some boards.

One fallacy that has inhibited buybacks is that although they increase the NAV return, they have little impact on the discount. If the buyback is pursued at token levels, of course that is true: but, if undertaken with sufficient vigour, it absolutely isn't. One issue seems to be that the boards and/or their advisers persistently underestimate the natural swings in demand and supply even for well-regarded funds. One only has to look at the fluctuations in size of ITs with zero discount policies or indeed open-ended funds to see real life examples. That misperception may partially explain the imbalance evident in some trusts between issuance (driven by investor demand) and buybacks (driven by board policy).

One egregious current example is BH Macro. This hedge fund vehicle issued shares in February 2023, to a value of $380 million, at a 2% premium, increasing the size of the fund by roughly one quarter. Performance for this generally well-managed portfolio has been poor in the 14 months since, at -4.5% at NAV level. However, those that bought shares in the issue have lost a further 20% as the price fell from a 2% premium to an 18% discount. It is a central duty of directors to prevent such outcomes if possible; and it was possible. There have been buybacks, but so far just under 3% of the shares in issue. If more than 5% are bought back, it is true, then a further fee of 2% is payable to the manager. The existence of this indefensible feature itself requires some explanation but it does not materially undermine the excess returns from buybacks or their role in reducing the discount if applied with sufficient vigour. There is a vote for continuation in early 2025 if the discount remains wide. The result will depend on one key shareholder who own a quarter of the company.

Most IT boards are acutely conscious of the challenges that their trusts face. Solutions by the "pioneers" have included consolidation, wind-ups and increased buybacks. One less successful strategy is to offer tenders for usually 15-25% at Fair Asset Value. This is sometimes intended to deal with a particular shareholder who wants to realise their stake. In fact, almost all shares are usually tendered so it does not solve the discount problem and merely shrinks the trust. The anxiety of boards is often sharpened by the attention of arbitrageurs who can see the opportunity to exploit the discounts that historic poor governance has produced. They will provide a helpful stimulus to reform but in general have little interest over the long run.

Well-run and governed trusts can grow. Certainly trusts that offer index performance struggle to have more appeal than an ETF and quite rightly. But with the correct structure, those trusts with managers that investors believe can outperform can become much bigger. That structure would most likely be a zero discount model for portfolios with underlying liquidity. For less liquid assets, including alternatives, a regular opportunity to go into a realisation share would allow investment by a rational new investor. The realisation shares would not lead to forced selling, but allow the realisation of assets on good terms to pay out the shares over time (ETFs in such asset classes will struggle). For these funds too, issuing at a premium and buying back shares at a discount where possible will enhance returns and increase confidence.

So it is likely that most discounts will disappear over time, whether by improved governance or by pressure from arbitragers. It is entirely possible that the total assets of ITs will increase as the well-run and well-governed trusts grow faster than their less well-favoured brethren shrink. We hope that happens.

But in any case, the prospective evaporation of meaningful discounts provides an opportunity for investor returns to exceed those of the underlying assets.

Peter Spiller
March 2024

Dollar Fund

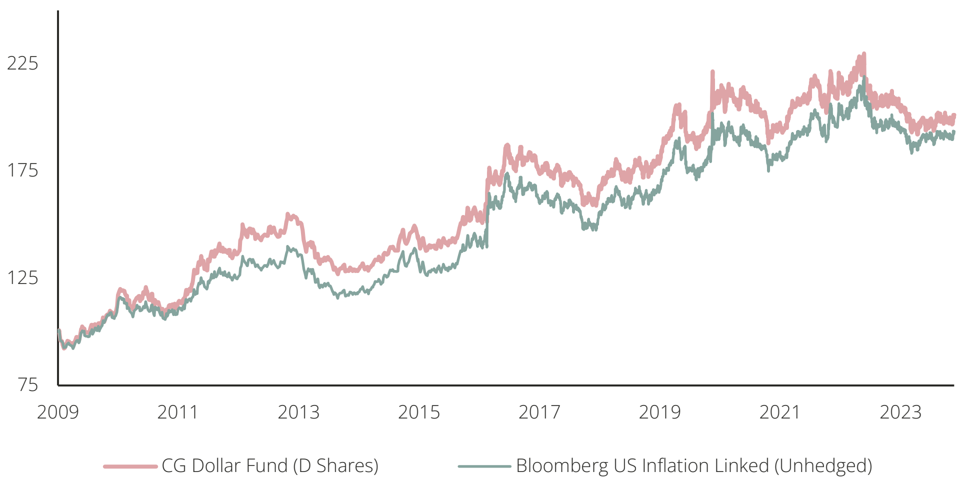
Fund information as at:
31st March 2024

Share Price:
£159.52

Investment Objective

To achieve long-term capital appreciation and income growth via long-only investments in US Government Index-Linked Bonds. The Fund is actively managed, without reference to a benchmark.

Performance Since Inception (total return)



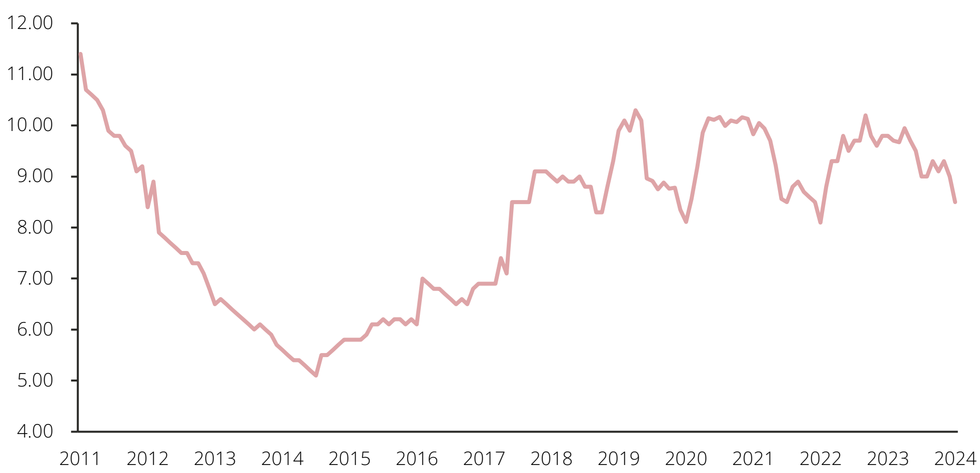
Fund Information

Fund Size	£648m
Class Size	£282m
No. of Holdings	39
Duration	8.5 Yrs
Dividend Yield	<2%
Management Fee <£1bn >£1bn	0.25% 0.15%
Total Expense Ratio	0.34%

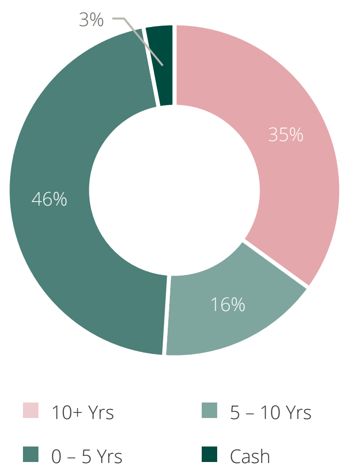
Return History (total return)

	1 month	3 months	6 months	YTD	1 year	2019	2020	2021	2022	2023
Dollar Fund (D Shares)	1.0%	0.5%	1.6%	0.5%	-3.2%	4.9%	8.6%	6.0%	-4.1%	-2.6%

Duration History (years)



Maturity Analysis



The opportunistic disinflation

One of the most striking aspects of the US economy is how far the consensus outlook has shifted over the past year. This time last year, markets were concerned by the fragility that sharp increases in interest rates had created, most demonstrably for Silicon Valley Bank and then Credit Suisse. Then, over summer, a loud chorus of significant figures in US policymaking and financial markets emerged vocally expecting a "soft landing" back to target inflation. The consensus view has now shifted even further, towards a "no landing" outcome. This has become evident in macroeconomic commentary and in financial market pricing. The most extreme recent example of this was former US Treasury Secretary Larry Summers, who commented that there must be an increasing possibility that the Fed's next rate move would have to be a *hike* rather than a cut. The OIS markets are now also expecting stickier inflation, as they now price in even *fewer* rate cuts over the coming years than the Fed's latest Dot Plot. This is the first time this has happened since the tightening cycle began.

This near-term outlook is consistent with US economic performance, which remains expansionary. Despite all of this, FOMC policymakers have been at pains to communicate that they still expect to make rate cuts this year, although the view appears to be shifting from "three cuts remain appropriate" to "*up* to three cuts will be appropriate". Notably, US President Joe Biden confirmed this month that he "stands by [his] prediction" that Fed would cut interest rates by the end of this year. In summary, US policymakers' response to more persistent inflation seems to be to wait and to hope for an opportunistic disinflation to materialise.

Against this backdrop, the Dollar Fund continues to be positioned to provide portfolio protection against a downturn in the US economy. But given the shifting near-term outlook in favour of no landing, what is the rationale for this? In short, several sources of fragility remain for the US economy which stem from its high levels of public and private sector debt. Glaring examples include the sustained fiscal deficit that is expected to grow irrespective of the outcome of the US election, and the much-telegraphed looming private sector debt maturity wall in 2025.

Despite this, it is impossible to ignore the indications that in the more immediate term, interest rates and inflation are likely to remain higher for longer. Over the quarter we have repositioned the fund to reflect this reality.

There are now three key considerations shaping the portfolio construction of the Dollar Fund:

The first is our short-term expectations of monetary policy. Despite the strength of the US economy, all indications from policymakers suggest a determination to cut rates for the first time by the end of the year, and consequently short-dated TIPS appear good value.

The second consideration is our expectations for the evolution of the US yield curve. As interest rates begin to normalise as we move further through this tightening cycle, there is a risk that the yield through the belly (5- to 10-year maturities) leading to capital losses. Related to this is the ongoing discussion about the appropriate level of r*: if the medium-term real growth rate for the US economy is around 2.2%, then the current 10-year TIPS yield of 2.1% appears at best fair value.[1]

The final consideration is fiscal policy. The US fiscal deficit appears set to reach 6% this year and next, and US government debt is soon to exceed 100% of GDP. Despite the upcoming US election, there remains no political constituency in favour of sustained fiscal surpluses, meaning that the fiscal position may continue to create upward pressure on the long end of the yield curve. Last October remains an important reminder of the potential for the US government to lose control of the long end of the yield curve should concerns about debt sustainability become more embedded.

There is an increasingly wide funnel of outcomes facing the US economy, and we have positioned the Dollar Fund to try to provide downside portfolio protection against a backdrop of higher for longer interest rates and inflation. Weighing up the considerations described above, we have increased the barbell positioning of the fund, and have shortened duration. We intend to strike a balance between taking advantage of pockets of value on the TIPS curve, and not suffering excessive drawdowns should interest rate expectations continue to revise upwards if the opportunistic disinflation does not materialise.

[1]See US Congressional Budget Office Economic Projections (February 2024): https://www.cbo.gov/data/budget-economic-data#4

Emma Moriarty
March 2024

CG Real Return Fund

Fund information as at:

31st March 2024

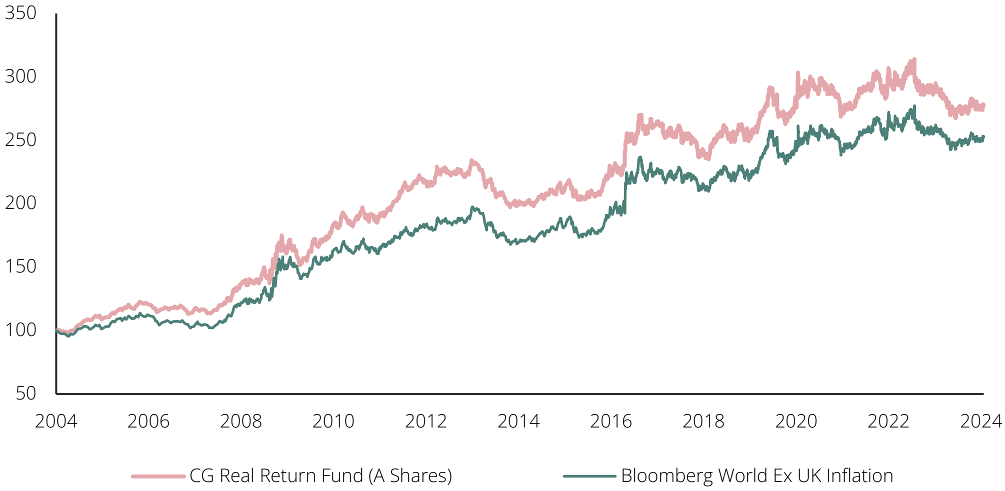
Share Price:

£188.97

Investment Objective

To achieve long-term real returns by investing in high-quality international Index-Linked Bonds (ex. United Kingdom), including but not limited to Australia, Canada, Denmark, Japan, Sweden and the United States. The Fund is actively managed, without reference to a benchmark.

Performance Since Inception (total return)



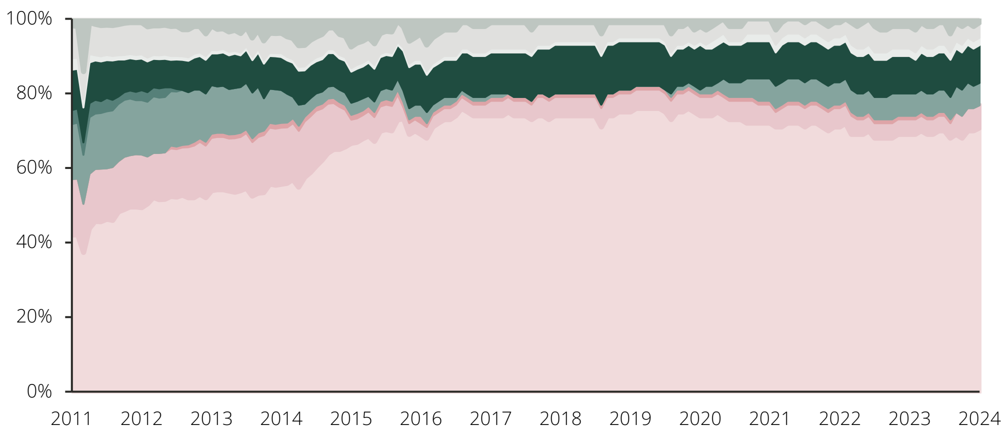
Fund Information

Fund Size	£472m
Class Size	£354m
No. of Holdings	65
Duration	7.4 Yrs
Dividend Yield	<2%
Management Fee <£500m >£500m	0.30% 0.20%
Total Expense Ratio	0.39%

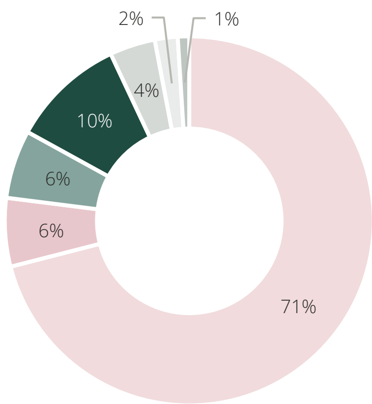
Return History (total return)

	1 month	3 months	6 months	YTD	1 year	2019	2020	2021	2022	2023
Real Return Fund (A Shares)	0.6%	-1.1%	1.0%	-1.1%	-3.8%	2.6%	8.0%	4.1%	-3.4%	-2.4%

Asset Allocation Development



Asset Allocation



USA   Sweden   Denmark   Japan   France   Germany   Australia   Canada   Cash

The Evolving Universe

In meaningfully every market in which inflation linked bonds have been issued they have delivered superior long term returns relative to nominal bonds. This is a conundrum as finance theory suggests that lower risk assets should deliver lower returns not higher. From the investor point of view this is unambiguously attractive, who does not want higher returns for lower risk? However from the issuer point of view the inverse is true, index linked issuance is a more expensive way to finance government borrowing and leaves the issuer with more risk. Sadly governments have started to take notice and are either reducing index linked issuance or in certain cases are ceasing completely.

The UK is a good example of a market where index linked debt as a portion of total outstanding debt is being intentionally reduced. From the starting point as the developed market issuer with the highest share of index linked debt in issue, the UK has suffered a dramatic increase in issuance costs post the Truss/Kwarteng gilt market implosion in 2022. More worryingly two issuers in this fund's universe have recently ceased new issuance completely: Canada and Germany. The symbolism of Canada ceasing issuance is particularly vivid, given its central role in establishing the index linked bond market via its debut "Real Return Bond" issue in 1991. This pioneering bond literally set the global standard, with a vast majority of future index linked issuance using the "Canadian Model" mechanics to calculate the par value and coupons. For index linked bond aficionados this is a sad development. The good news is that both Germany and Canada have existing curves with 20 year+ maturity bonds extant so these sovereigns can continue to be part of the portfolio for decades to come.

Surprisingly in the short term our choice of sovereigns has actually increased. After a period of due diligence we have recently added New Zealand to our universe. New Zealand exhibits many of the characteristics we value in an index linked issuer. It has an AA+ credit rating, however in practice we consider the risk of default by any government that issues bonds in their own currency to be effectively zero. It offers yields of 2.1% real to 3% real depending on maturity, which makes it one of the highest yielding developed market bond issuers. It has relatively low levels of indebtedness compared with its Anglo-Saxon peers, particularly the most comparable commodity exporting Anglo-sphere members, Australia and Canada. Like those other pacific rim nations, New Zealand's largest trading partner is China, followed by Australia, US and Japan. Exports are focused on dairy, meat and forestry making New Zealand a soft commodity powerhouse.

These trade dynamics matter particularly in relation to currency dynamics. Like Australia, New Zealand is exposed to Chinese growth and its currency has "risk on" dynamics, that is to say it will tend to strengthen relative to the US dollar during times of global economic strength and weaken at times of economic or financial stress. Not only do these risk on dynamics allow for some portfolio balance within the fund, they also come with higher running yields which more than compensate for the additional volatility. Australia has been a long-standing jurisdiction within the fund and it is notable that the New Zealand dollar has structurally strengthened against the Australian dollar over decades, which combined with higher yields makes it an attractive addition.

Importantly New Zealand scores well on all our ESG screens, having high scores across governance effectiveness, press freedom, human development and carbon abatement commitments by 2050.

The initiation position is a little over 1% of the portfolio and liquidity proved to be excellent in building the position. This is a market that might make up a greater portion of the portfolio in the future and it is particularly pleasing to increase the spread of investments at a time when the long-term breadth of the universe is in decline.

Alastair Laing
March 2024

UK Index-Linked Bond Fund

cgam

Fund information as at:

31st March 2024

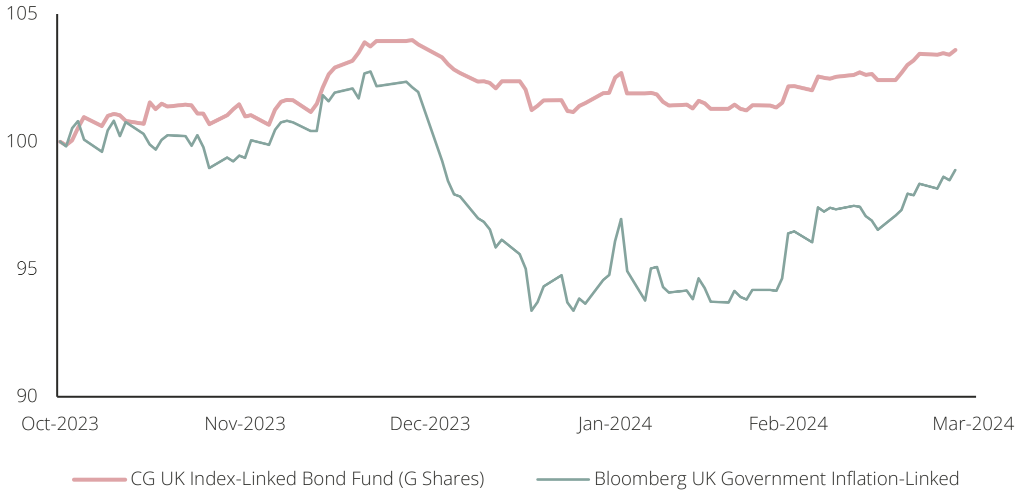
Share Price:

£103.59

Investment Objective

To achieve long-term capital appreciation and income growth via long-only investments in UK Government Index-Linked Bonds. The Fund is actively managed, without reference to a benchmark.

Performance Since Inception (total return)



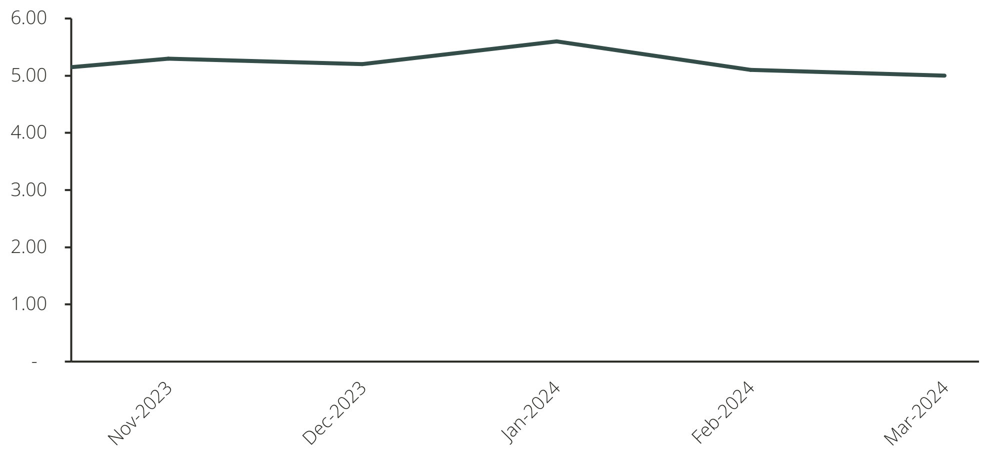
Fund Information

Fund Size	£9.7m
Class Size	£9.7m
No. of Holdings	14
Dividend Yield	<2%
Duration	5 Yrs
Management Fee	0.15%
Total Expense Ratio	0.24%

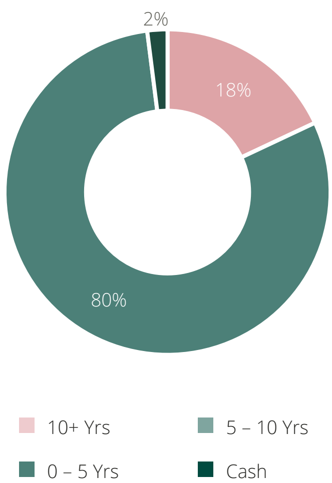
Return History (total return)

	1 month	3 months	6 months	YTD	1 year	2019	2020	2021	2022	2023
CG UK Index-Linked Bond Fund	1.4%	-0.2%	n/a	-0.2%	n/a	n/a	n/a	n/a	n/a	n/a

Duration History (years)



Asset Analysis



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The window of discourse

In the 1990s, Joseph Overton penned the political concept that at any given time, there is a defined set of boundaries to the public policy that will be acceptable to the voting population. This idea, initially referred to as the window of discourse has since become known to policymakers as the Overton window. In short, the theory is that in a crisis, the window of discourse widens. The most commonly cited example of crisis is war, but the more recent example is the Covid pandemic, where the range of policies enacted – both socially, in the form of restrictions on civil liberties, and fiscally, in the form of unprecedented government spending against falling national income – were profoundly beyond the scope of what would have been acceptable in normal times.

The corollary of this is that once out of crisis, the window then narrows. Case in point is the Truss-Kwarteng 'Mini Budget' in September 2022, the market reaction to which saw both Liz Truss and Kwasi Kwarteng forced to resign from their posts shortly thereafter. Truss went on to say, in an essay published by the Sunday Telegraph, that she was "brought down by the left-wing economic establishment".[1] Not so. Truss was brought down by the global bond markets, which, in the absence of a general election, unambiguously communicated the view that the window of discourse had definitively narrowed. Unrestricted deficit-fuelled spending was no longer an acceptable policy stance.

The limited range of policies being discussed in advance of the upcoming general election is further evidence of the narrowing window of discourse. Although the election is yet to be called, the Labour Party is odds-on to win. While the current Shadow Chancellor, Rachel Reeves, has emphasised the need for a new model of economic management ("Securonomics"), in practice, the two fiscal rules that she proposes are stated in remarkably similar terms to those set out by Jeremy Hunt in October 2022.[2],[3] Implicitly, this is an attempt to communicate economic policy in line with a narrower acceptable window. This is done in the knowledge it is not just the UK public which will have their say on Labour's model of economic management, but also the global government bond market.

An important shift in fundamentals led to launching this fund in October 2023. The first was the transition to a global economy with structurally *higher inflation* than we have seen over the past decades. We have written about the causes of this – such as the shift away from globalisation, demographic change, and the increased need for defence spending and spending on the transition to net zero – on several occasions. The UK economy faces a more acute problem. The combination of a tight labour market and sustained underinvestment in capital have rendered the economy effectively supply-constrained, further limiting its potential for growth without inflation.

The other important development was *improved gilt market valuations*. Since September 2022, there has been a dramatic repricing in index-linked gilt markets. The result is that index-linked gilts – which had for some time traded on negative yields – now offer a risk-free positive real yield to investors.

The positioning of this fund has been heavily influenced by the two factors described above: structurally higher inflation and fiscal dominance, both of which weigh in favour of keeping duration short (5.1 years) relative to the index (16.6 years). Since inception, the fund has returned 3.6% and over Q1 2024 it has returned -0.2%.

Our hope is that the lower volatility that comes with a shorter-duration fund will prove valuable to investors over the coming election year, as we remain alert to the possibility of volatility in markets off the back of any proposed fiscal stance that is not seen by markets to be sustainable.

[1] Liz Truss: I was brought down by the left-wing economic establishment (telegraph.co.uk)

[2] See Rachel Reeves Mais Lecture 2024 – The Labour Party. Despite the label, the key tenets of Securonomics are very similar to the US Treasury's current policy stance under Janet Yellen, more commonly termed "modern supply-side economics".

[3] There is one important difference. Jeremy Hunt's primary fiscal rule is stated in terms of the "overall deficit". Rachel Reeves' first fiscal rule is stated in terms of the "current deficit", which she describes as covering "day-to-day" spending. The rationale for this is not to discourage the investment needed for a modern supply-side industrial policy, but the effect will likely be to increase the overall deficit.

Emma Moriarty
March 2024

CG Absolute Return Fund

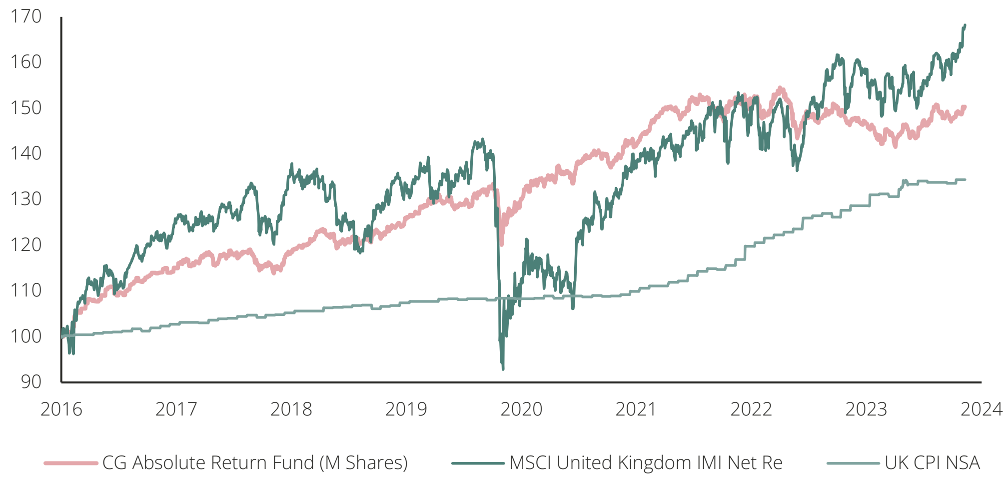
Fund information as at:
31st March 2024

Share Price:
£134.76

Investment Objective

To achieve cost-effective, long-term absolute returns via a global portfolio of equities, bonds and commodities. Typically, equity investments are expressed via ETFs and listed closed end funds, and bond investments are made directly. The Fund is actively managed, without reference to a benchmark.

Performance Since Inception (total return)



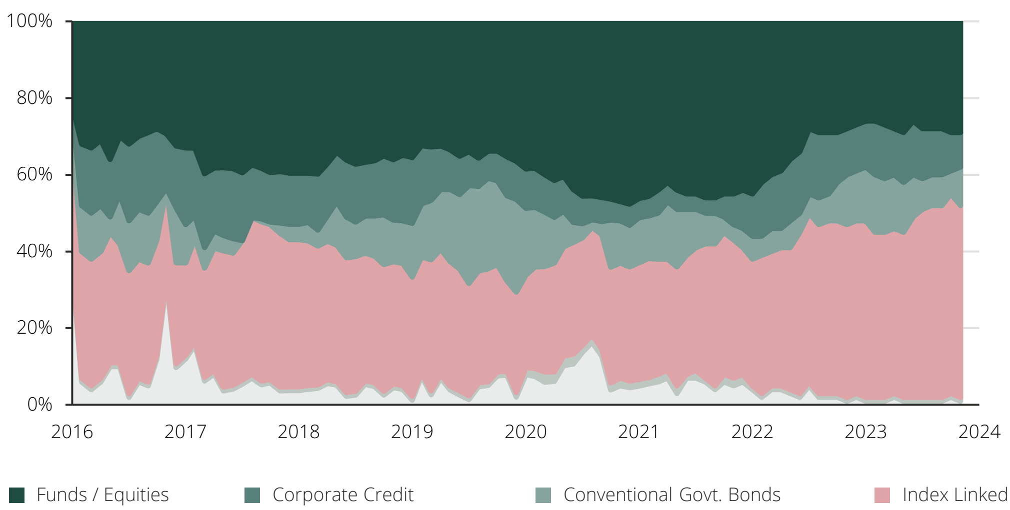
Fund Information

Fund Size	£947m
Class Size	£944m
No. of Holdings	180
Dividend Yield	<2%
Management Fee	0.35%
Total Expense Ratio	0.44%

Return History (total return)

	1 month	3 months	6 months	YTD	1 year	2019	2020	2021	2022	2023
Absolute Return	1.3%	-0.2%	3.3%	-0.2%	2.3%	8.2%	7.2%	8.9%	-2.9%	1.9%

Asset Allocation Development



Asset Allocation

Funds / Equities	29%
Corporate Credit	9%
Conventional Govt. Bonds	10%
Index Linked Govt. Bonds	50%
Gold	1%
Cash	1%

"Never rode shotgun in a hearse before" [1]

At our investor day last year we looked at the long term returns of US equities versus other equity markets around the world. Since 1900, other than Australia, the US had the highest returns of any country. This prompted us to ask whether this was evidence of American exceptionalism and therefore could we conclude that such a trend would continue. Alternatively was it just luck and so we should assume it wouldn't be repeated. Worse yet, might it point to American equities being over-valued and therefore returns would be lacklustre as they mean revert to some "norm".

Given the phenomenal performance of US equities since these questions have become more urgent. On balance, we are inclined to take American exceptionalism at face value. First, given the timescales under consideration, it seems unlikely that we are being fooled by randomness. Second, the other best performing equity markets (Australia, New Zealand, Canada and South Africa) share many common features with the US. Third, the US is especially well endowed with natural capital, particularly as it relates to energy. Fourth, the US enjoys an unrivalled cultural dynamism and entrepreneurialism. Fifth, the technology sector, which has been a major engine of US stock market growth, was stimulated and nurtured by large scale US defence spending, a consequence of it being the sole capitalist superpower after WWII. Finally, the political environment in the US has remained resolutely pro-business over many decades.

This narrative is very compelling. Like many compelling narratives it is also, if not exactly wrong, then certainly incomplete. A recent paper by Fed economist Michael Smolyansky[2] shows that American equity performance is not all that it appears. In the period 1989 to 2019 earnings grew in real terms by 3.8% per annum, almost double the rate of the period from 1962 to 1989. Dig a little deeper and you find that the rate of growth of operating earnings (before taxes and interest) actually fell over that same period from 2.4% to 2.2%. It follows that ALL the exceptional performance of US equities in recent years, relative to their own history, has arisen from falling interest expenses and tax rates. Given market interest rates have risen to levels not seen in roughly 20 years it seems that the former are set to rise. The latter are determined by political decisions and are therefore unforecastable. But it seems likely, given the deep fiscal problems in the US, that corporation taxes will not continue to fall.

Investors take a more sanguine view extrapolating this strong earnings growth far into the future. The CAPE ratio stands at 34x, not far from its peak of 38x in the 2021 "everything bubble". The forward PE ratio is 18.2x well above its long term average of 15.7x. On the strength of Smolyansky's analysis it seems investors are being unduly optimistic about the prospects for equities.

The narrowing of breadth in US equities has been extreme, often a late cycle / bubble indicator. It also requires investors to have ever greater confidence in an ever smaller universe of stocks. We doubt many of our readers would disagree that Tesla is overvalued: it trades on 55x this year's earnings, earnings which are forecast to grow less than 10%. Stellantis, another automobile maker - whose earnings are admittedly not growing at all - trades on a P/E ratio of 4.

But what of other businesses in the Magnificent Seven[3]? Microsoft is a fantastic company but it is priced accordingly. Adjusting for stock based compensation, Microsoft has a free cashflow yield of 1.6%. Admittedly, it is growing those cashflows very handsomely. But to justify those valuations we would suggest that investors need to believe that it can grow cashflow 8-12% in – something close to – perpetuity.

Long term returns from these starting valuations will most likely disappoint, though that says nothing of short term market performance. Fortunately, there are attractive alternatives available to us. We estimate listed UK infrastructure offer real returns of around 6.5%, fantastic long term returns with moderate risk. We have been adding to these positions of which more overleaf.

[1] "Vin" (Steve McQueen) - The Magnificent Seven - https://www.youtube.com/watch?v=gKpPQ6SqHvQ

[2] https://www.federalreserve.gov/econres/feds/files/2023041pap.pdf

[2]In the 1950 movie, 4 of the 7 end up dead. We hope that is not prophetic.

Chris Clothier
March 2024

Capital Gearing Portfolio Fund

cgam

Fund information as at:

31st March 2024

Share Price:

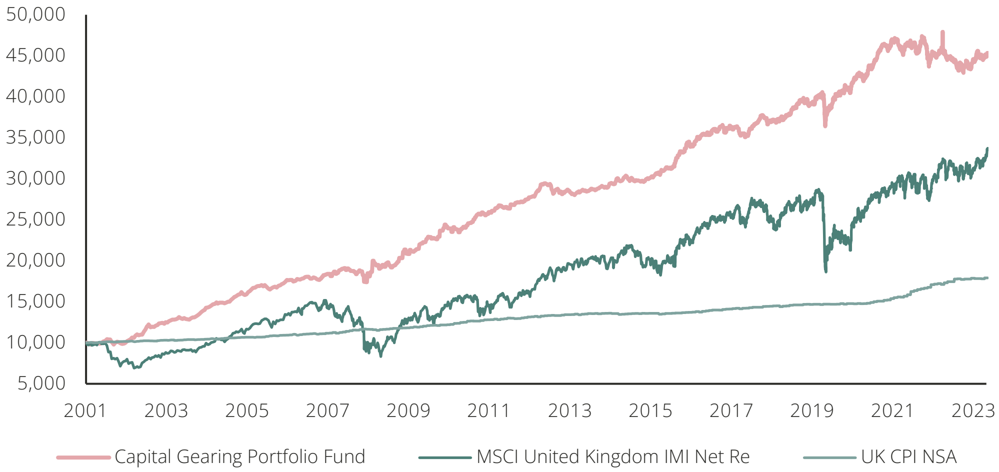
P: £36,906

V: £179.47

Investment Objective

To achieve cost-effective, long-term absolute returns via a global portfolio of equities, bonds and commodities. Typically, equity investments are expressed via ETFs and listed closed end funds, and bond investments are made directly. The Fund is actively managed, without reference to a benchmark.

Performance Since Inception (total return)



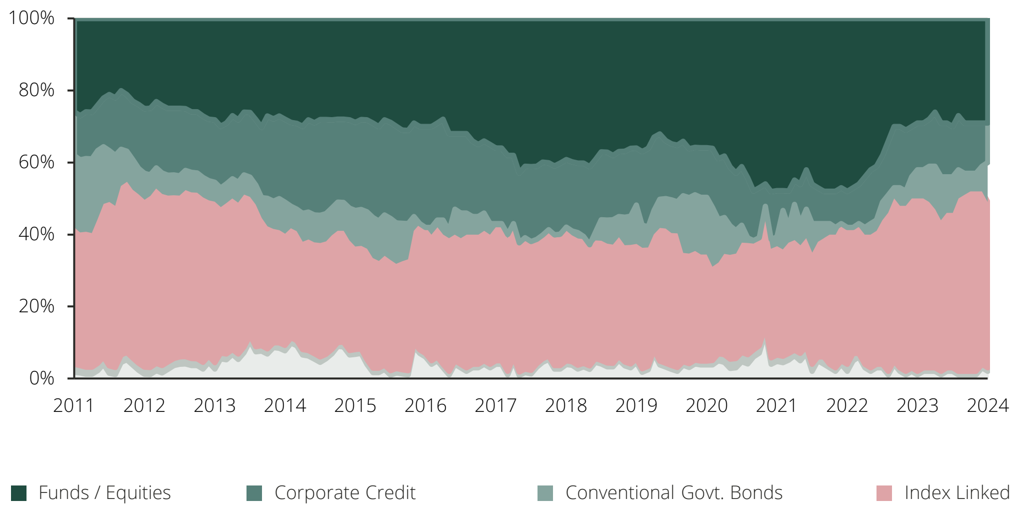
Fund Information

Fund Size	£302m
No. of Holdings	185
Dividend Yield	<2%
Management Fee	0.75%
Total Expense Ratio	0.84%

Return History (total return)

	1 month	3 months	6 months	YTD	1 year	2019	2020	2021	2022	2023
Capital Gearing Portfolio Fund	1.1%	-0.5%	2.9%	-0.5%	1.5%	7.6%	7.3%	10.3%	-4.0%	1.1%

Asset Allocation Development



Asset Allocation

Funds / Equities	29%
Corporate Credit	11%
Conventional Govt. Bonds	11%
Index Linked Govt. Bonds	46%
Gold	1%
Cash	2%

When will discounts narrow?

Investment trust shareholders are licking their wounds after the worst period of discount widening for decades. Based on historic episodes it will take at least 25 months[1] from the discount trough to the reestablishment of the of the pre-existing ratings. Given the severity of the current episode it is likely to take longer. However, in every crisis there is opportunity and the benefit of having a portfolio with significant dry powder (in the form of cash and short dated bonds) is that we can take our time negotiating from a position of strength. There were several opportunities to do so over the period.

Significant additions were made to our holding of RIT Capital Partners (0.7% position) at the widest discounts in at least 30 years. Their commitment to reduce private assets to c.25% over the near term and a disciplined capital allocation policy, which has seen 6.2% of share capital repurchased on highly accretive terms, will deliver attractive returns over the medium term.

A new position of c.80bps was built in BH Macro at discounts of up to 18%. As Peter points out in his opening comments, some investors have suffered astonishing losses from the failure of the board to arrest their discount. Directors must decisively confront the discount or risk failing the continuation vote next year.

We also added c.45bps to Ruffer Investment Company ("RIC") at discounts greater than averages seen through both the Global Financial Crisis and Covid. RIC has c.60% of its portfolio in cash or short-dated bonds, c.10% in Yen which looks good value and a board we believe will take steps to protect investors. We think the risk adjusted returns will be agreeable.

Circa 1.5% was added to infrastructure across a range of names where discounts look unsustainably wide. Within renewables, Foresight Solar Fund has a discontinuation vote in June this year and is currently trading at a c.30% discount. We believe they should sell the underperforming Australian assets to focus on their core strategy in the UK, using the proceeds to reduce debt and increase buybacks. Good progress has been made with the sale of the Spanish assets (at a 21% premium to NAV) and a return of c.5% of the share capital in issue. However, in the absence of a clear commitment to return to the core strategy, shareholders may well decide to close the discount by putting the portfolio into run off and returning capital.

Overall c.3% has been added to risk assets over the period to make up c.29% of the portfolio. with some repositioning within equities. Profits were taken in European energy (reduced to c.1.8%), Japanese investment trusts (AVI and FJV) and Investor AB (exited). We exited a 1.7% position in mining and resources held through the Lyxor ETF, some of which has been re-deployed into sector specific investment trusts and the balance was put into the UK equity market via ETFs. Japanese equities increased 0.5% largely through performance (c.4.6% of the portfolio).

Record flows into credit funds have significantly compressed spreads in the corporate bond market. We took the opportunity early in the quarter to reduce our credit holdings by 3% to 11% of the portfolio and shorten duration to 1.9 years.

In many ways the travails of the investment trust market mirrors the wider malaise felt across the UK stock market. There is a vibrant debate about whether these issues will prove cyclical or whether there are deep structural issues that will result in long term decline. We would observe that investment trusts have been around for more than 150 years, the market has grown by more than 10% per annum for the last 20 years and that as recently as 2021 we were seeing historic levels of issuance. Our expectation is that we are close to the bottom of a deep cyclical trough rather than facing an existential crisis in the sector. However whatever the future holds the current existence of deep discounts represents an attractive opportunity to outperform wider equity markets.

[1] Peel Hunt and company estimates based on trough dates of Mar 03, Dec 08, Dec 11, Jun 16 and trough discounts of -14%, -19%, -12%,-9%, vs -19% today

Hassan Raza, CFA
March 2024

The Investment Team

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Summary Risk Factors

Any person subscribing for an investment in the Fund must be able to bear the risks involved and must meet the Fund's suitability requirements. Some or all investment products may not be suitable for certain investors. No assurance can be given that the Fund's investment objectives can be achieved. Among the risks that we wish to call to the particular attention of prospective investors are the following:

- The Fund is speculative and involves a degree of risk;
- An investor could lose all or a substantial amount of his or her investment;
- CG Asset Management Limited ("CGAM") has total trading authority over the Fund, and the Fund is dependent upon the services of CGAM. The use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequentially, higher risk;
- There is no secondary market for the investors' interest in the Fund and none is expected to develop; and
- The Fund's performance may be volatile.

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