CG Absolute Return Strategy: Capital Gearing Trust, CG Absolute Return Fund, Capital Gearing Portfolio Fund

Fund	Q4 2022 Performance	12-month Performance
Capital Gearing Trust (open)	+0.4%	-3.5%
CG Absolute Return Fund (open)	+0.9%	-2.9%
Capital Gearing Portfolio Fund (closed)	+0.7%	-4.0%

*to 30 December 2022

- Risk assets (29% of the portfolio) showed positive performance, returning +0.8% in Q4 (-8.4% annually) compared to +4.2% for the Investment Trust Index (-17% annually);
- Weighting to risk assets was reduced by 9%, primarily through property disposals but also from maturing discount opportunities;
- Several investment trust discount opportunities were partially realised as discounts narrowed, including Fidelity Emerging Markets, Smithson Investment Trust, F&C Investment Trust, Bellevue Healthcare Trust and Finsbury Growth & Income;
- Bond holdings are currently 68% of the portfolio, comprised of 44% index linked, 17% corporate credit and 7% short dated government nominals;
- Index linked performance was flat over the quarter (+1.3% annually) as bond gains were offset by sterling appreciation against a range of currencies;
- Within index linked, UK linkers began the year at 6% of the portfolio and ended the year close to 20%. The gilt market sell-off that began at the end of September provided opportunities to increase UK exposure and to add duration. Weightings to US TIPS fell slightly to 19% and developed markets (5% across Japan, Canada, Australia and Sweden) were unchanged;
- Corporate bond holdings were increased to 17%, through additions in investment grade financials and utilities credit. Average duration of the credit portfolio remains short <1.5 years;
- Whilst credit spreads narrowed towards the end of the quarter, they remain elevated and continue to provide good opportunities to increase exposure to the asset class;
- The portfolio remains defensive, with an objective of capital preservation and inflation protection.

CG Real Return Strategy: Real Return Fund, Dollar Fund

Fund	Q4 2022 Performance	12-month Performance
Real Return Fund (open)	-3.0%	-3.4%
Real Return Fund (GBP hedged) (open)	+2.2%	-12.8%
Dollar Fund (hedged) (open)	+2.6%	-15.8%
Dollar Fund (unhedged) (open)	-4.5%	-4.1%

*to 30 December 2022

Real Return Fund

- Q4 the fund returned -3% against -2.9% for the Global Index linked ex. UK index and -3.4% versus -2.6% over the last 12 months;
- The GBP Hedged share class returned +2% in Q4 and -13% over the last 12 months;
- US TIPS (69% of the portfolio) delivered -4% with modest gains on the dollar value of the bonds were more than offset by sterling strength;
- Inflation expectations of 2.3%, as implied by 10-year breakevens on US TIPS, suggest that the market believes that Federal Reserve policy actions will be sufficient to restrain inflation within two years;
- We remain concerned that inflation will be higher, more embedded, and persist beyond this horizon;
- We expect downward pressure on inflation over the coming months across energy, food and goods but that over the medium term services inflation will endure given the tightness in the labour market under a stimulative US fiscal policy backdrop;
- Germany (10% of the portfolio) contributed +1% over the quarter against a backdrop of elevated Eurozone inflation;
- Japanese holdings (7% of the portfolio) added +1.6% over the quarter, as the Yen strengthened after a loosening by the Bank of Japan of the yield curve control;
- Portfolio positioning and duration remain largely unchanged, at 8.8 years (longer than the index at 7 years).

Dollar Fund

- The unhedged share class returned -4.5% in Q4 against -5.2% for the index and -4.1% against -1.6% over the last 12 months;
- The hedged share class returned +2.6% for Q4 against +1.8% its index and -16% against -14% over 12 months;
- Relative performance differences were due to our portfolio duration being 3 years longer than the index (index duration 7 years, portfolio duration 10 years;
- With a portfolio yield of 1.8% real, we consider current yields to be very attractive;
- In a rising yield environment, such an approach may contribute to short term underperformance however, with attractive values available in the TIPS market we have moved to lock in longer term value, which we expect will lead to future outperformance;

- Inflation expectations of 2.3%, as implied by 10-year breakevens on US TIPS, suggest that the market believes that Federal Reserve policy actions will be sufficient to restrain inflation within two years;
- We remain concerned that inflation will be higher, more embedded, and persist beyond this horizon.