

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 vertical geological strata. The overall scene is dramatic and rugged.

# CG Asset Management

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*Real Return Fund*

October 2024

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# *Real Return Fund*

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*Overview*

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# Real Return Fund Overview

## Investment Objective



- To achieve **long-term real returns** via investing in a portfolio of high-quality inflation-linked government bonds (ex United Kingdom).
- Simple low-cost approach, no gearing, no short selling
- The fund is actively managed, without reference to a benchmark

## Fees and Structure



- Size: **£391m** (launched in March 2004)
- Management Fee: **0.30%** (<£500m) / **0.20%** (>£500m) | Total Expense Ratio: 0.39%
- Daily priced Irish UCITS
- Available in a GBP hedged share class

## 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

Overview

# CG Asset Management Overview

**2001**

*Founded*

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

**£3.1bn**

*AUM*

£3.1bn 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

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## 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

# 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**

*Senior Compliance Officer*



**Sindy Somander**

*Finance & Reporting Manager*

# *Investment Process*

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*Real Return Fund*

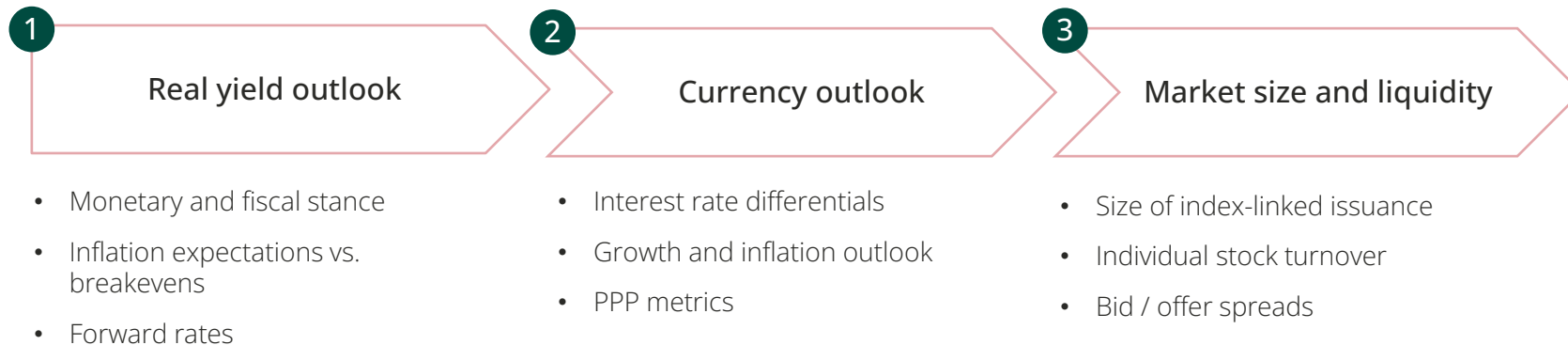
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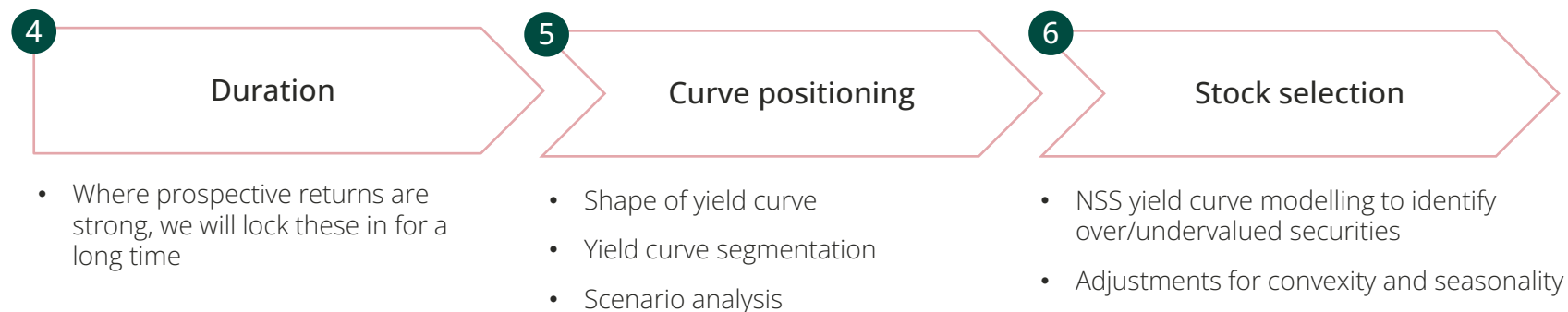
## The Real Return Fund's asset allocation is decided in two stages

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### Stage 1: Determine the target weighting for each sovereign issuer



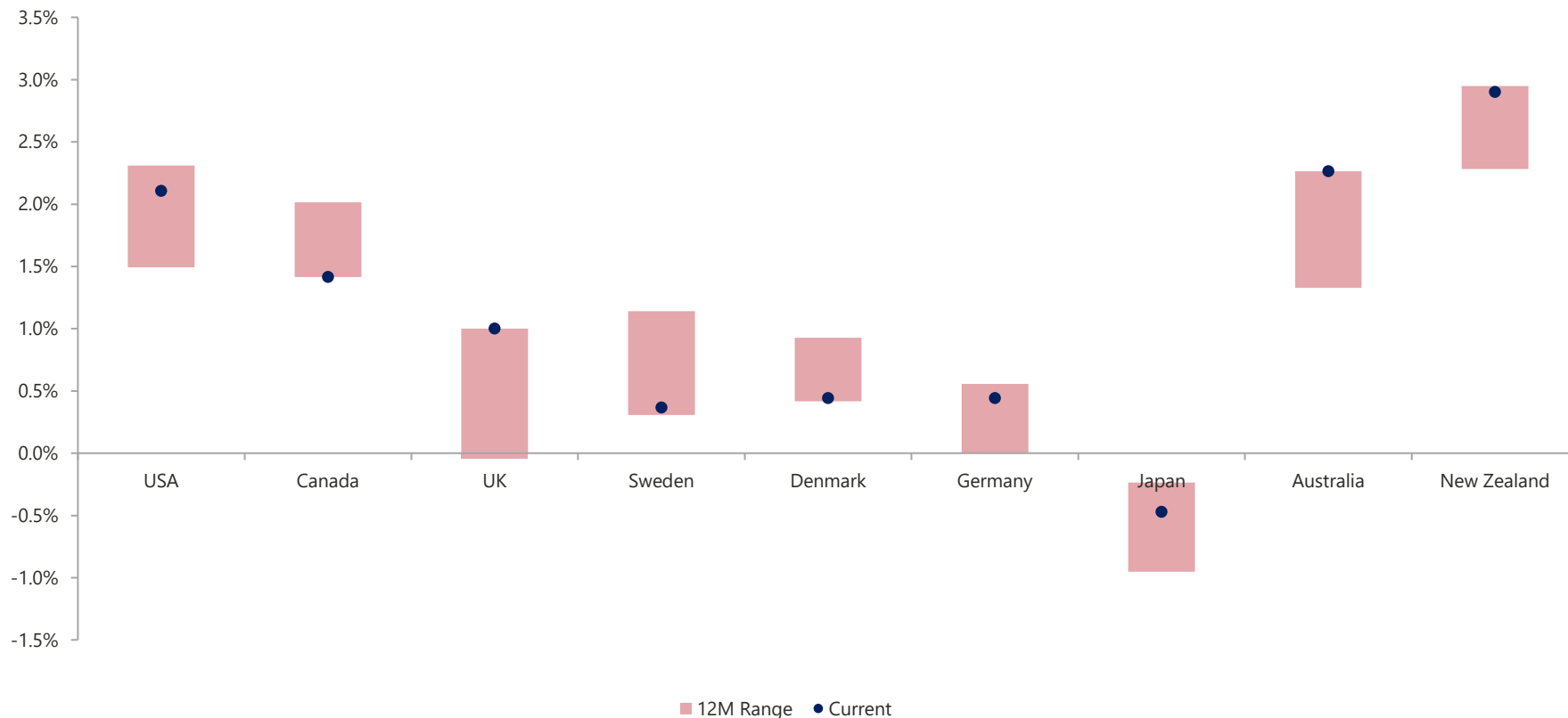
### Stage 2: For each sovereign allocation, determine appropriate positioning



## Investment Process

**Weightings to different index-linked markets are a function of yield available and market size. On these grounds, the US remains the most attractive market**

### Developed Government Bond 10 Year Real Yields



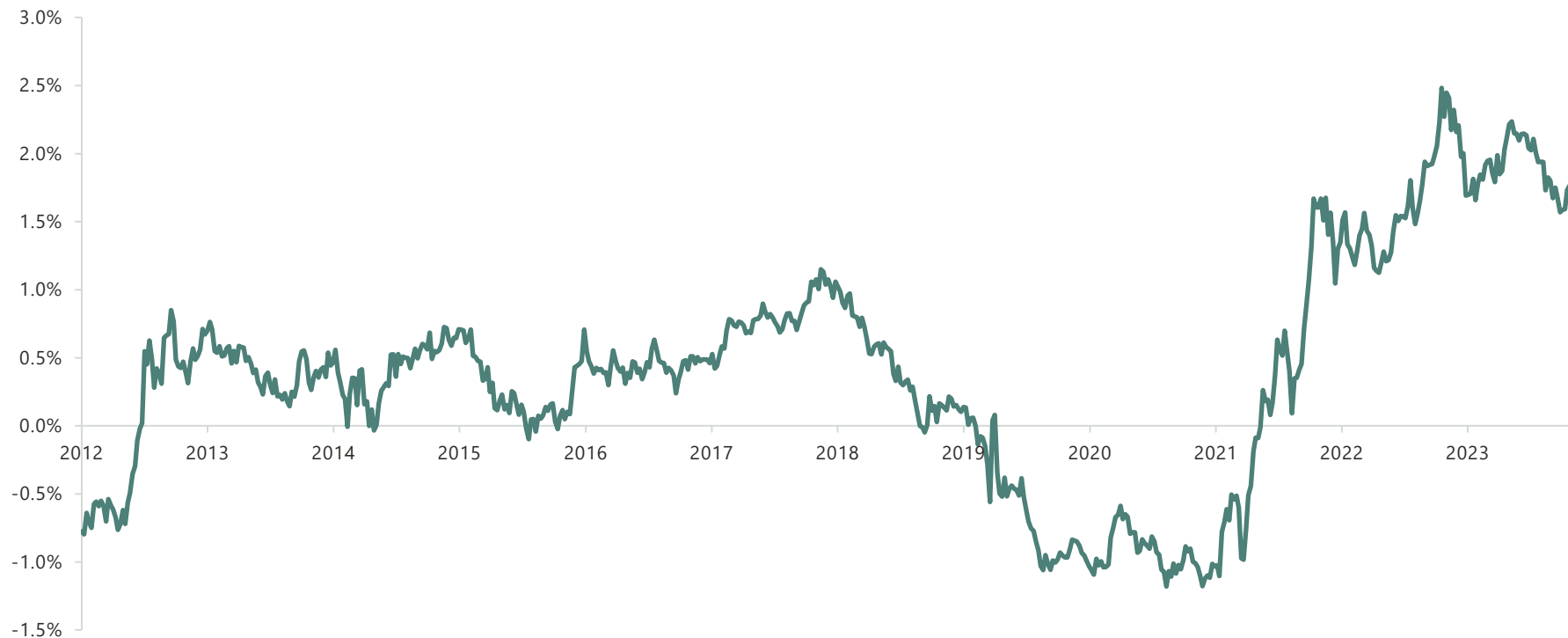
Source: Bloomberg Finance L.P.

*Investment Process*

# US real yields are elevated relative to recent history and against most estimates of $r^*$ . This leads us to favour long duration

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US TIPS Yield: 10-year history

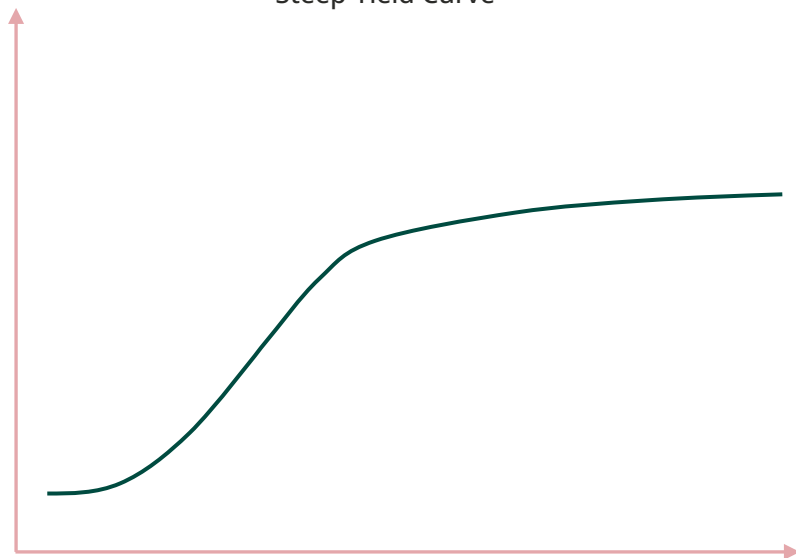


Source: Bloomberg Finance L.P.

## Investment Process

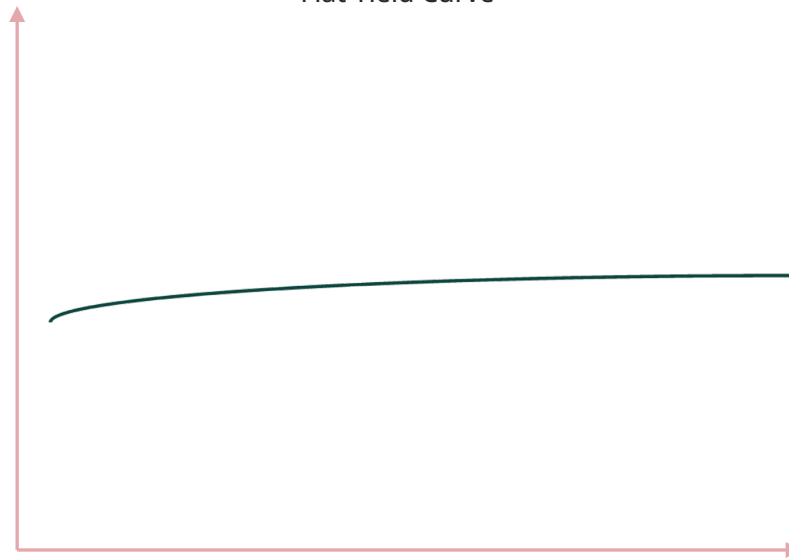
**The shape of the yield curve, combined with our expectations, drives our curve positioning. The current flatness of the yield curve leads us to prefer a barbell strategy**

Steep Yield Curve



- Roll down is a significant contributor to total return;
- Prefer 'belly' of the curve, where gradient is steepest.

Flat Yield Curve



- No roll down, so favour convexity at long end;
- Prefer a barbell strategy, favouring front and long end of curve.

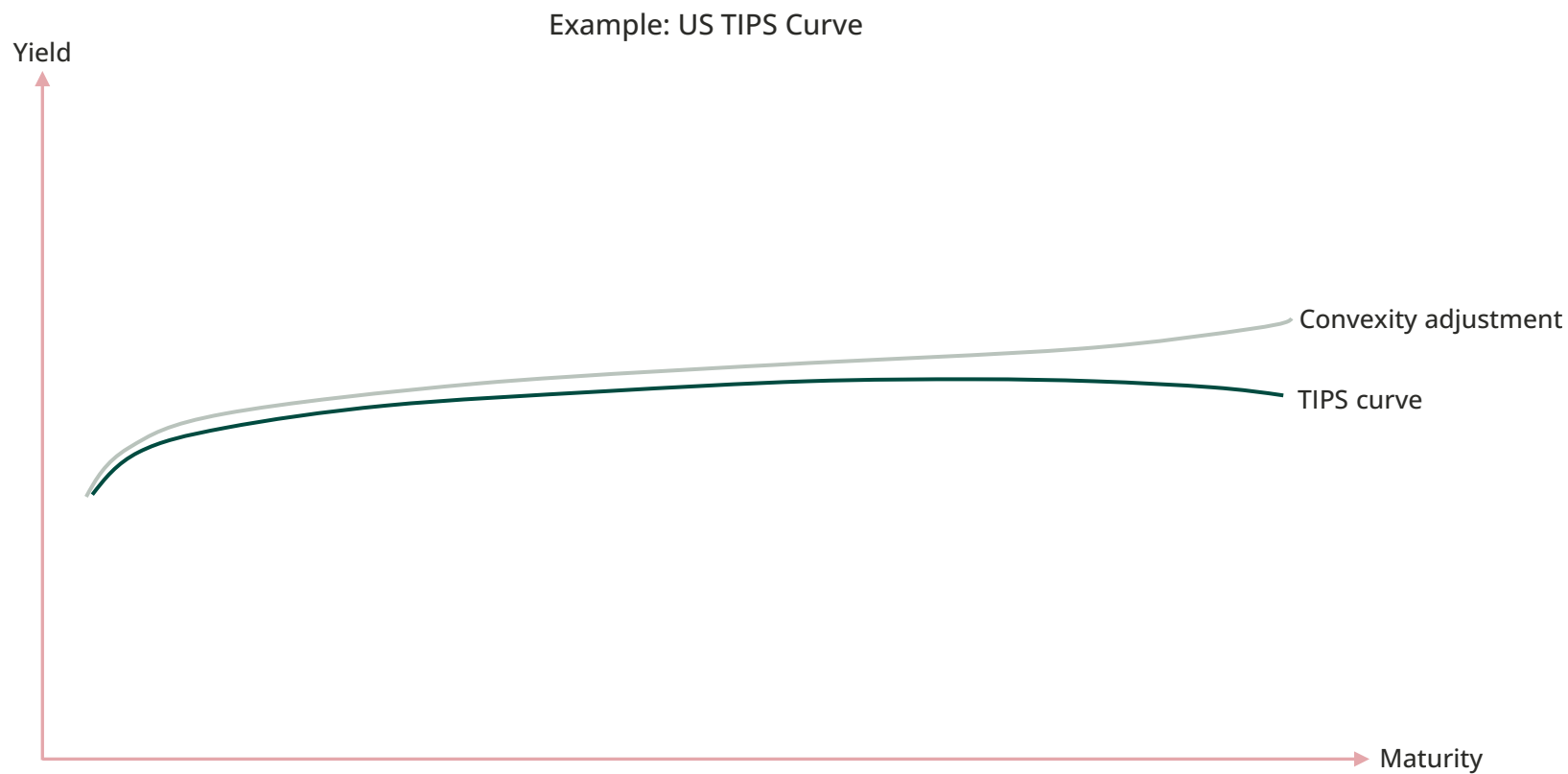
## Investment Process

**For TIPS, we use a Nelson Siegel Svensson formula to identify individual under and overpriced bonds**

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

## We then adjust our expected yields for the impact of convexity at longer durations



# *Real Return Fund*

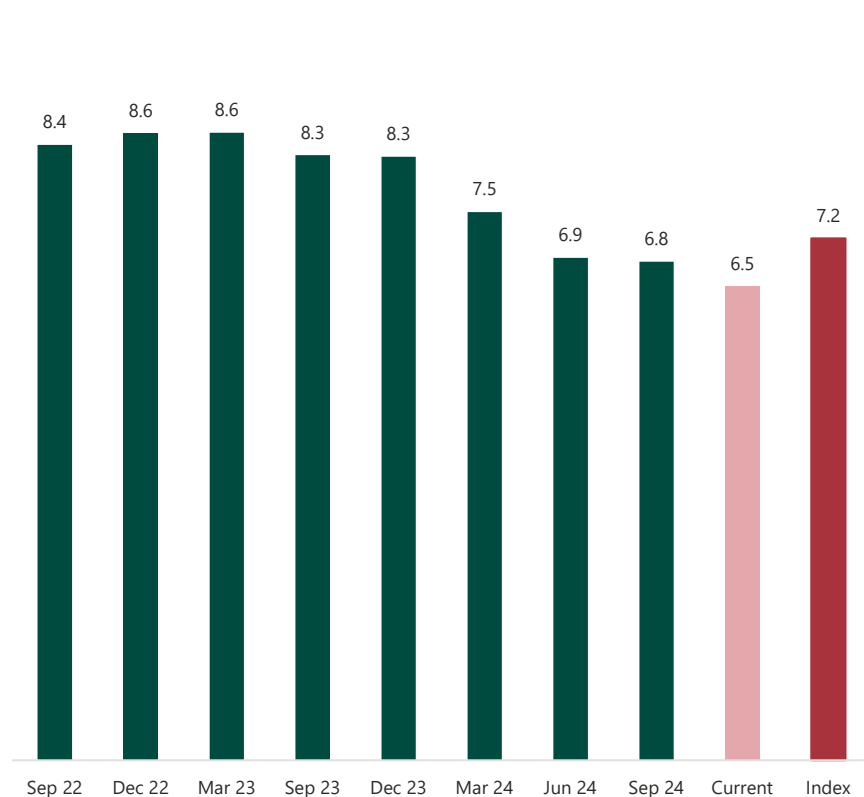
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*Positioning and Returns*

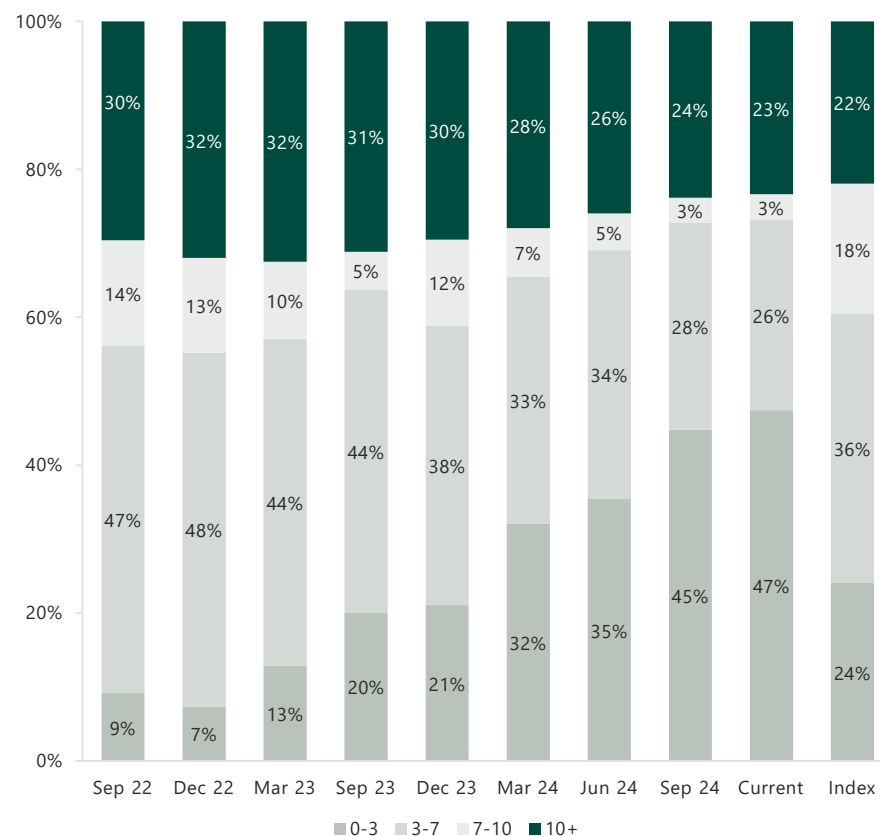
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## Duration is slightly shorter than the index

Portfolio Duration (Years)



Portfolio Curve Positioning – By Maturity Bucket (Years)

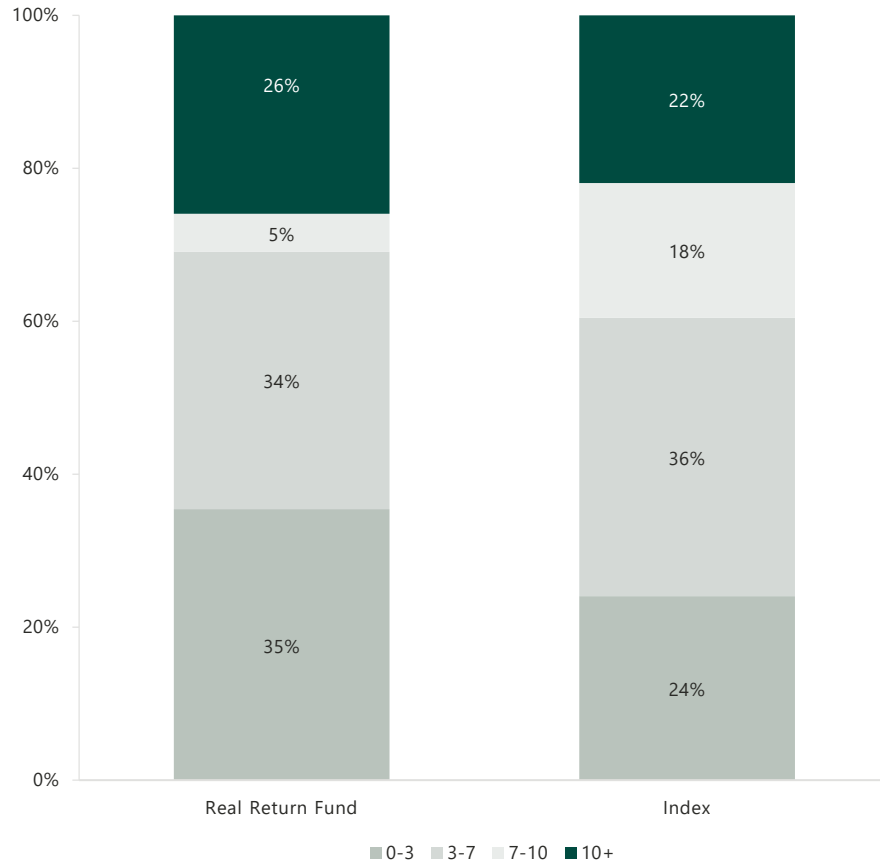


Source: Bloomberg Finance L.P., Northern Trust

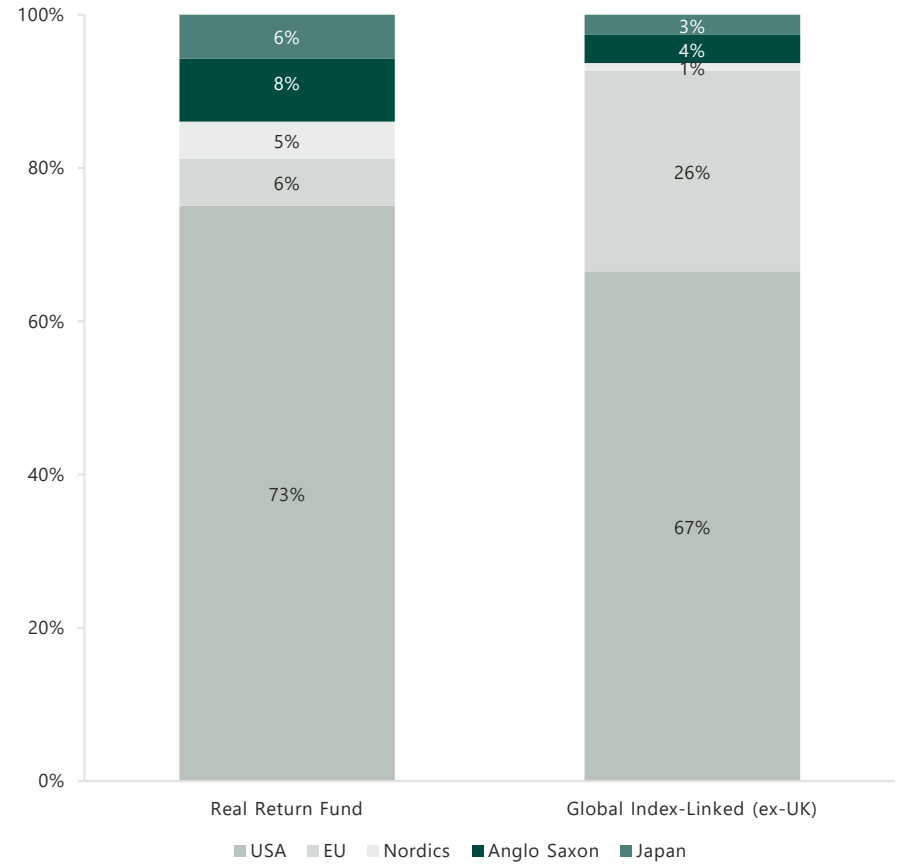


# The Real Return Fund has shorter duration than the index and is underweight Europe

Real Return Fund – Curve Positioning vs. Index



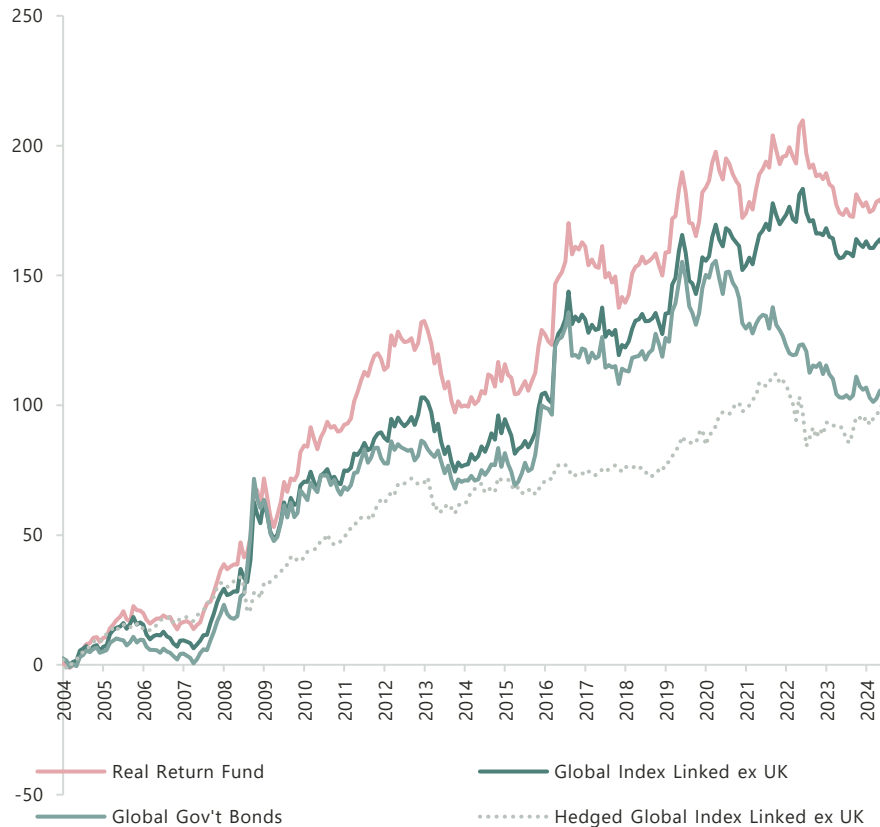
Real Return Fund – Geographic Allocation



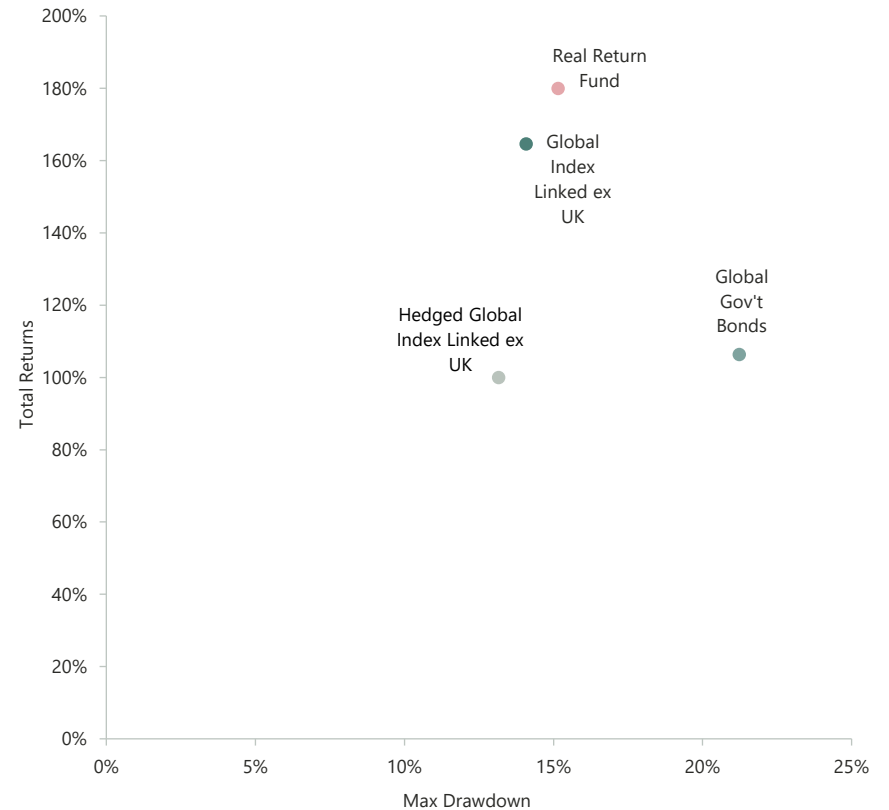
Source: Bloomberg Finance L.P., Northern Trust

# The Real Return Fund has outperformed its benchmark since inception

Fund Performance – Since Inception



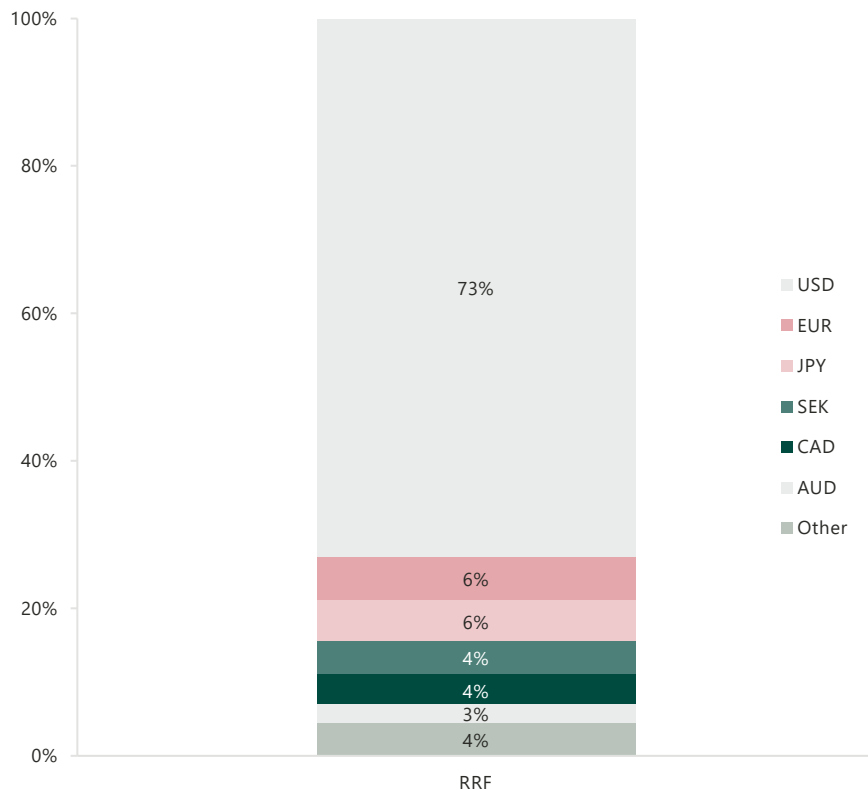
Risk and Return – Since Inception



Source: Bloomberg Finance L.P., Northern Trust | Drawdown calculation based on month-end NAVs

# Portfolio yield, duration and currency exposure are actively managed

## Currency Exposure



## Duration and Yield<sup>1</sup>

	Weight	Duration (Yrs)	Real Yield (%)	Rating
United States	73%	8.0	2.0%	AA
Germany	6%	1.5	2.3%	AAA
Japan	6%	1.0	-1.4%	A
Sweden	4%	3.4	0.8%	AAA
Canada	4%	3.7	1.3%	AAA
Australia	3%	5.7	2.0%	AAA
New Zealand	1%	3.1	2.4%	AAA
Denmark	0%	6.0	0.5%	AAA
Cash	3%	0	N/A	N/A
<b>Total</b>	<b>100%</b>	<b>6.5</b>	<b>1.8%</b>	<b>AA</b>

<sup>1</sup> Source: Bloomberg Finance LP, Northern Trust. Duration refers to Option Adjusted Duration, Real Yield refers to the Real Yield to Maturity. Rating refers to the sovereign credit rating.

## Breakdown of holdings

Largest Bond Holdings		Credit ratings		Characteristics	
German I/L 0.10% 15/04/26	5.9%	AAA	18%	Number of bonds	52
US I/L 1.50% 15/02/53	5.3%	AA	76%	Yield to maturity (real)	1.7%
US I/L 0.125% 15/04/26	4.6%	A	6%	Average maturity	7.7 Yrs
US I/L 2.00% 15/01/26	4.5%	BBB	0%	Average coupon (real)	1.1%
US I/L 0.50% 15/01/28	3.7%	BB and below	0%	Composite rating	AA

Source: Bloomberg Finance LP, Northern Trust.

# *Why index-linked?*

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*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

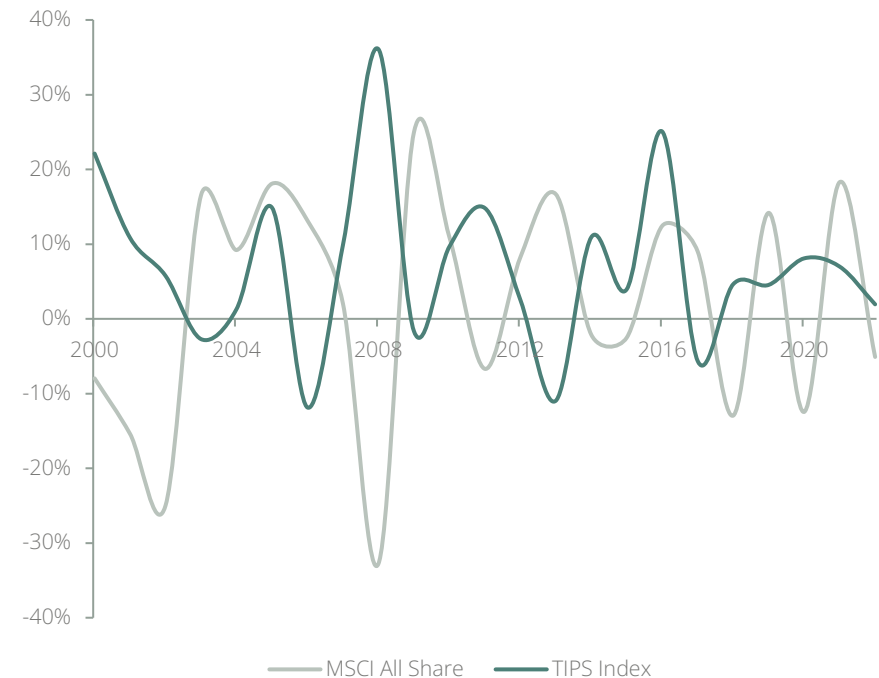
## Negative correlation with risk assets

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)



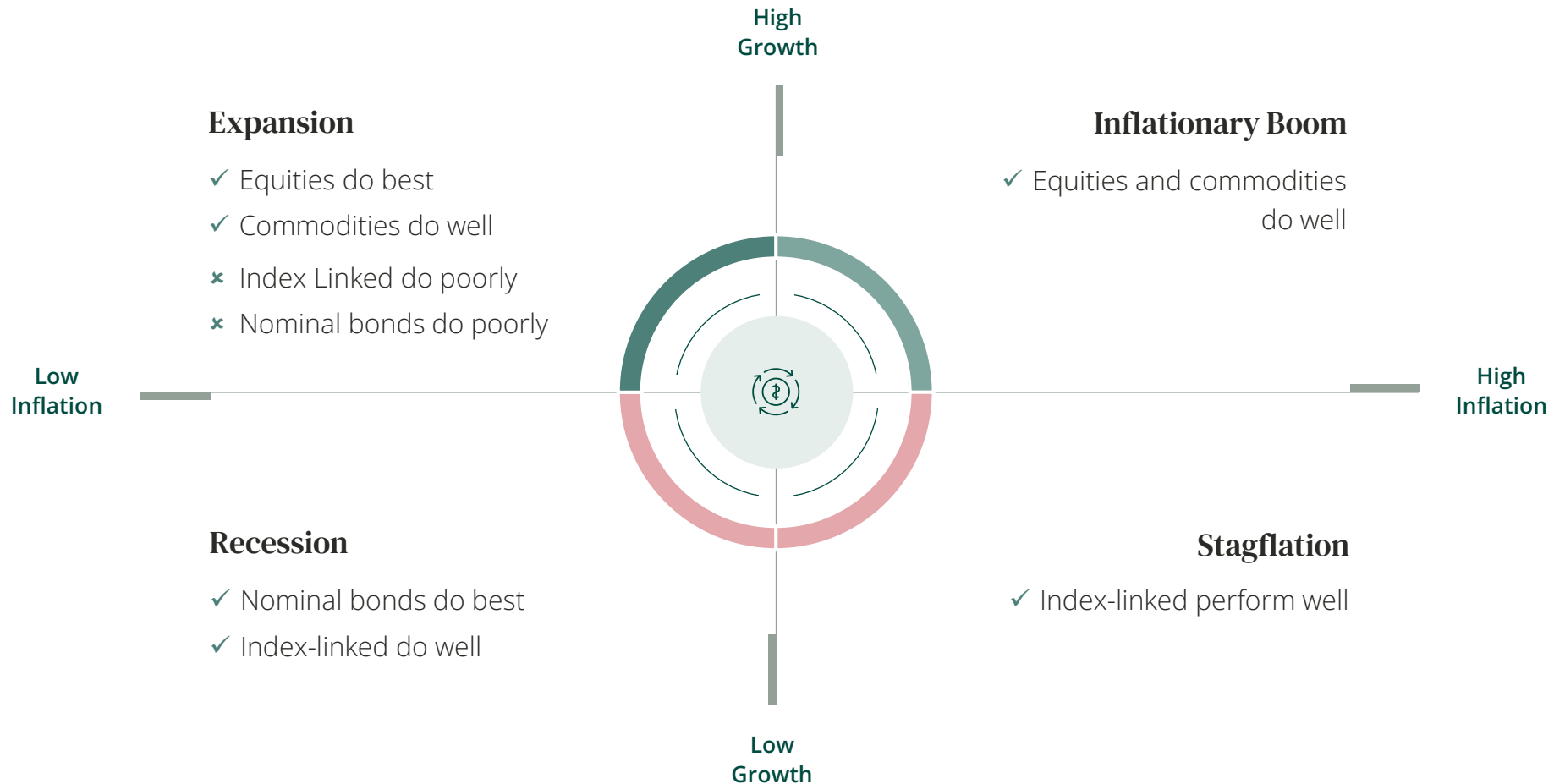
Index-Linked Bond – Total Returns (US)



Source: Bloomberg Finance L.P.

*Why index-linked?*

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

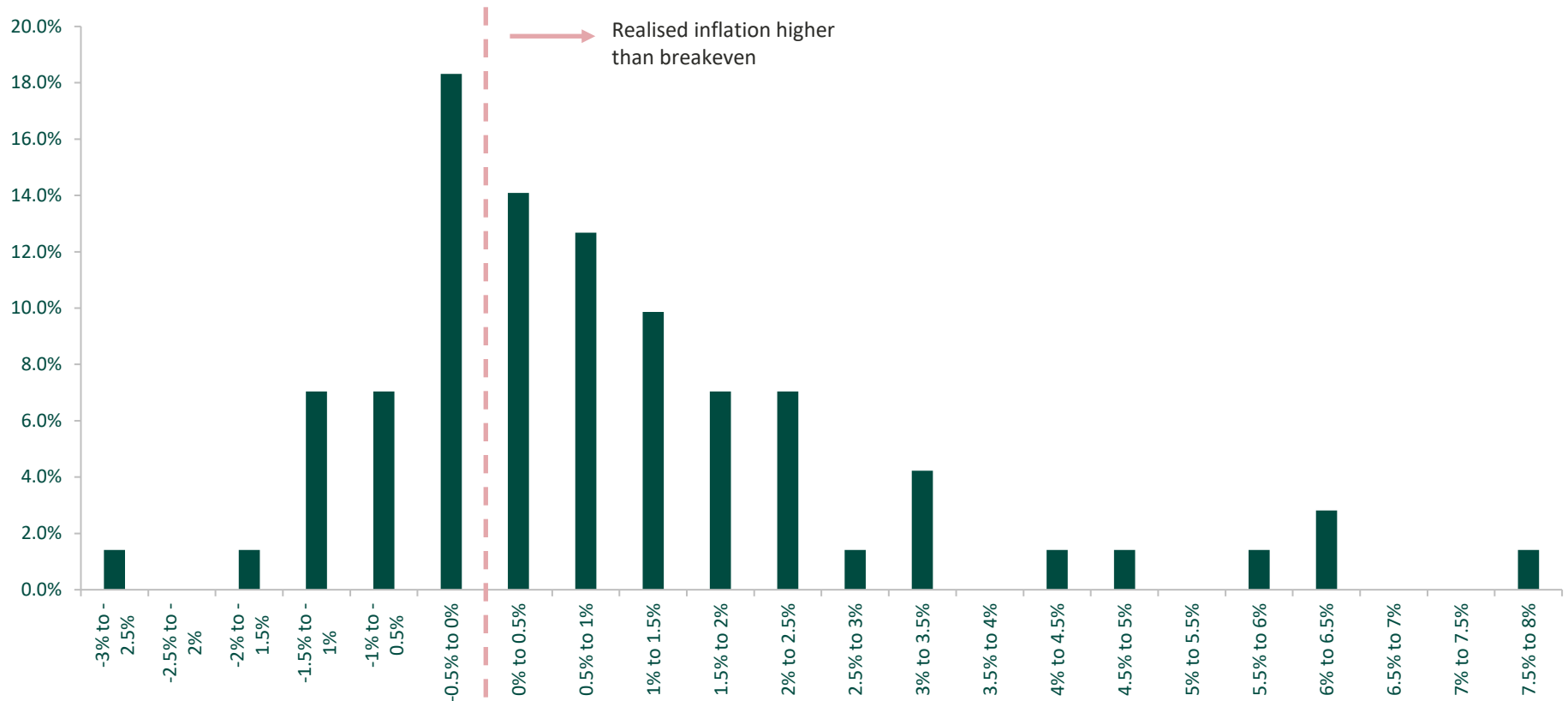




Why index-linked?

# As measured by realised inflation vs. breakevens, markets routinely underestimate inflation – by an average of 1% since 2004

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



# *Real Return Fund*

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*Approach to Responsible Investing*

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# The principles underpinning our approach to responsible investment

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## **Be honest**

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

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## **One firm, one rule**

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

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## **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.

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## **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.

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## **Targeted**

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

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## **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.

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## **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.

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## **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. As our capacity to influence governments is extremely limited, our primary approach is to exclude sovereigns that do not maintain high ESG standards.

In order to help access these criteria 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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