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CG Portfolio Fund

Second Quarter Report
June 2022

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

The Price of Energy

And consequences for Europe

It has been argued that the availability of cheaper energy has been the driver of human progress; starting, perhaps, with the discovery of fire and then the use of draught animals to replace humans at the plough. And, although the energy intensity of modern economies has reduced markedly, even in the last 50 years, the cost of energy remains important.

To begin with the short term, the war with Russia has raised the price of oil and gas, and hence electricity. Such increases act as a tax on consumers and, to the extent that they are imported, on countries as a whole. That tax is on top of the secondary effects from the resulting inflation. Particularly with respect to gas, Europe has been hit much harder than the rest of the world because of its dependence on Russian gas through pipelines. Using current futures prices, and normal consumption rates, Schmieding and Feilder have estimated additional costs over the next year to be €220bn; that is equivalent to 1.5% of EU GDP in 2021 and 3% of consumption. Of course, some of that burden will be assumed by governments at the ultimate expense of tax payers but these numbers are large enough when added to the headwind of other rising prices and slow world growth to make a recession likely. It is not known whether Russian supplies will be maintained at their reduced rate in the second half of 2022, but if not, then rationing will be necessary. That would hit Germany, as the industrial powerhouse, hard.

Just as importantly, over the medium term the price of power in Europe will be higher in relative terms to its competitors than in 2019. That is because the pursuit of energy security will require more nuclear, though with a long lag and expensively, and LNG. New sources of gas will have to be developed, but on top of the shipping costs, just liquefying and refrigerating LNG uses 15% of the gas. So the competitive position of Germany in particular will be weakened.

Turning to the longer term, the impact of climate change, and attempts to limit it are significant for future prices of fossil fuels. The cost of capital for fossil fuel production has increased substantially as banks and investors have been reluctant to develop new oil or gas fields. Nor is investment encouraged by windfall taxes. Given that oil fields deplete at roughly 5% per annum, a high level of capex is required to maintain production. Yet, with a supply base now 14% higher than 2014, capex is now 40% lower. Production capacity will probably fall over the next several years in the absence of rapid improvements in Venezuela or Iran. Indeed, the impact of sanctions on Russian production is unknown but could add to the problems. Demand for fossil fuels over the medium term will remain frustratingly high, close to current levels.

Meanwhile the search for alternatives continues. Wind and Solar will sustain their growth, but their overall market share is still constrained by intermittency. Hydrogen is promising but a long way from being competitive. Nuclear has very long lags and sets a new, much higher, cost base for electricity.

Of course, none of that means that a recession in world GDP would not put pressure on prices over the next year. Merely that the medium term equilibrium level for power prices will be higher in real terms than it was before the crisis in Ukraine, albeit below current levels. Just as important is the relative effect on the competitiveness of Europe. That could have important consequences for growth and possibly threatens the stability of the European economy.

Peter Spiller

June 2022

Dollar Fund

Fund information as at:	Fund price:	Status:
30th June 2022	*£172.82*	*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	£839m
Class Size	£370m
Dividend Yield	< 2%
Management Fee < £1bn	0.25%
Management Fee > £1bn	0.15%
Total Expense Ratio	0.34%

Return history (total returns)

1 month	-0.3%	2021	6.0%
3 months	-0.5%	2020	8.6%
6 months	-1.4%	2019	4.9%
Year to date	-1.4%	2018	4.9%
1 year	4.9%	2017	-6.3%

Largest holdings

US I/L 0.75% 15/02/45	6.6%
US I/L 1.375% 15/02/44	6.5%
US I/L 0.75% 15/07/28	5.1%
US I/L 0.75% 15/02/42	4.7%
US I/L 1.00% 15/02/46	4.5%

Performance since inception (total return)

Credit ratings

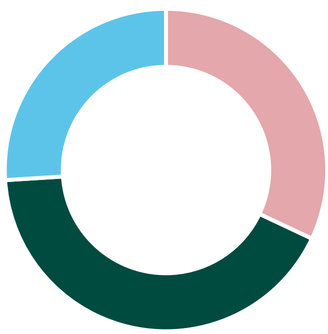
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	34
Yield to Maturity (real)	0.6%
Average Maturity	10.8 Yrs
Average coupon (real)	1.0%
Composite rating	AAA

Maturity analysis

10+ Years	32%
5-10 Years	42%
0-5 Years	26%
Cash	0%



Duration history

30 June 22	9.3
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

June 2022

The outlook for the global economy is grim. The Ukraine war has created an energy price shock and food price shock which is being felt most acutely in Europe and emerging markets. The IMF estimates that 60% of low-income countries are at a high risk of debt distress or already in debt distress. Lockdowns in China, combined with a brutal slowdown in the real estate market, mean it is probably in recession, though that is unlikely to be confirmed by official figures. It is hardly surprising that Dr Copper is positively suicidal – the red metal was down 22% over the quarter.

While the US economy is better placed than much of rest of the world, there are clear signs of slowing there too. The Atlanta Fed GDPNow tracker shows the economy contracting. Manufacturing new order PMIs are below 50 – another sign of contraction. Consumer sentiment, as measured by the University of Michigan, is at the lowest level on record.

Unsurprisingly this is spilling into the bond market. The yield curve has inverted, the Fed Funds Futures market suggests the Fed will start to cut rates early next year and breakevens show inflation falling back to target within 2 years. Thereafter, breakevens imply that the Fed will fail to meet its inflation target across the whole length of the treasury curve.

Against this rather depressing backdrop, the labour market stands out as a beacon of strength and optimism. The June payrolls report was positive: change in non-farm payrolls was +372k versus market expectations of +265k, and average hourly earnings growth came in at 5.1%. May's Atlanta Fed Wage Tracker was 6.1% and the job openings rate is at 6.9% - all very high by historic standards. Growth in private rents remains elevated, although it is starting to roll over and is likely to slow further as the housing market cools.

This creates a conundrum. Wages and shelter are the biggest drivers of inflation and appear to be set fair. To bring inflation under control the Fed must bring down wage growth and that will require raising the level of unemployment above the neutral rate. The CBO estimates NAIRU to be 4.3%, the OECD thinks that it is 4.1%. Former Treasury Secretary Larry Summers argues persuasively that it is rather higher, perhaps 5%. If the excess inflation that needs to be squeezed out of the system is 2-2.5% and assuming a sacrifice ratio of 2 to 1 then somewhere between 4-5 "percentage-point-years" of unemployment above the NAIRU are required to bring inflation under control. If Summers' estimate of NAIRU is correct that would require, two years of unemployment at 7-7.5% to bring inflation to target.

Yet the FOMC's own projections for unemployment see it peaking at 4.1% (though some members allow it might rise as far as 4.5%). As Summers quipped, "It raises the question. When I say I will pay any price for a worldwide trip but I expect to pay $400, just how committed I am to taking [it]".

Getting inflation under control is unlikely to be as smooth and painless as either the Fed or markets think. The required medicine is likely to be iatrogenic – both to asset prices and the economy – and more than one course need be applied. With secular stagnation and secular stagflation both plausible prospects for the economy TIPS look a rather better bet than equities. We have lengthened duration to 9.5 years as yields have risen. We may get better opportunities to lengthen further should the US economy be prescribed even more bitter medicine.

1. See the Q1 2022 Dollar Fund report for further discussion on yield curve inversions 2. Non-accelerating Inflation Rate of Unemployment 3. https:www.fmg.ac.uk/events/secular-stagnation-or-secular-stagflation 4. The more dovish Paul Krugman estimates 2%, Summers believes it could be 2.5% or higher 5. E.g. to reduce inflation by 1% you need unemployment to be 2% above the NAIRU for 1 year or by 1% for 2 years

Dollar Fund (GBP Hedged)

Fund information as at:

30th June 2022

Fund price:

£98.16

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	£839m
Hedged Class Size	£382m
Dividend Yield	< 2%
Management Fee < £1bn	0.25%
Management Fee > £1bn	0.15%
Total Expense Ratio	0.34%

Return history (total returns)

1 month	-4.2%	2021	5.2%
3 months	-8.5%	2020	10.5%
6 months	-11.8%	2019	7.4%
Year to date	-11.8%	2018	-2.6%
1 year	-8.0%	2017	1.4%

Largest holdings

US I/L 0.75% 15/02/45	6.6%
US I/L 1.375% 15/02/44	6.5%
US I/L 0.75% 15/07/28	5.1%
US I/L 0.75% 15/02/42	4.7%
US I/L 1.00% 15/02/46	4.5%

Performance since inception (total return)

Credit ratings

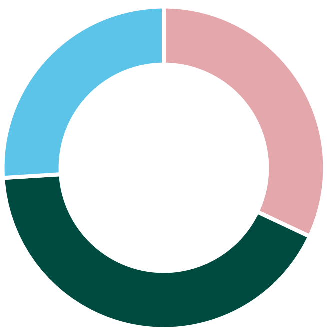
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	34
Yield to Maturity (real)	0.6%
Average Maturity	10.8 Yrs
Average coupon (real)	1.0%
Composite rating	AAA

Maturity analysis

10+ Years	32%
5-10 Years	42%
0-5 Years	26%
Cash	0%



Duration history

30 June 22	9.3
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

Real Return Fund (GBP Hedged)

Fund information as at:

30th June 2022

Fund price:

£96.50

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	£572m
Class Size	£133m
Dividend Yield	< 3%
Management Fee < £500m	0.30%
Management Fee > £500m	0.20%
Total Expense Ratio	0.39%

Return history (total returns)

1 month	-3.9%	2021	N/A
3 months	-6.9%	2020	N/A
6 months	-9.6%	2019	N/A
Year to date	-9.6%	2018	N/A
1 year	-6.0%	2017	N/A

Largest holdings

US I/L 1.375% 15/02/44	4.3%
US I/L 2.00% 15/01/26	4.3%
US I/L 0.75% 15/02/45	4.3%
US I/L 2.375% 15/01/27	4.0%
US I/L 0.50% 15/01/28	3.4%

Performance since inception (total return)

Credit ratings

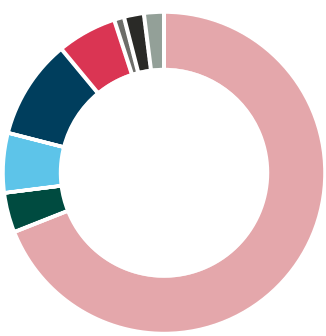
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	59
Yield to Maturity (real)	0.2%
Average Maturity	9.7 Yrs
Average coupon (real)	1.3%
Composite rating	AAA

Asset allocation

USA	69%
Sweden	4%
Japan	6%
Germany	10%
Canada	6%
Denmark	1%
Australia	2%
Cash	2%



Duration history

30 June 22	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

Fund information as at: *30th June 2022*

Fund price: *£207.26*

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	£572m
Class Size	£439m
Dividend Yield	< 3%
Management Fee < £500m	0.30%
Management Fee > £500m	0.20%
Total Expense Ratio	0.39%

Return history (total returns)

1 month	-1.0%	2021	4.1%
3 months	-1.0%	2020	8.0%
6 months	-1.7%	2019	2.6%
Year to date	-1.7%	2018	3.5%
1 year	3.5%	2017	-4.4%

Largest holdings

US I/L 1.375% 15/02/44	4.3%
US I/L 2.00% 15/01/26	4.3%
US I/L 0.75% 15/02/45	4.3%
US I/L 2.375% 15/01/27	4.0%
US I/L 0.50% 15/01/28	3.4%

Performance since inception (total return)

Credit ratings

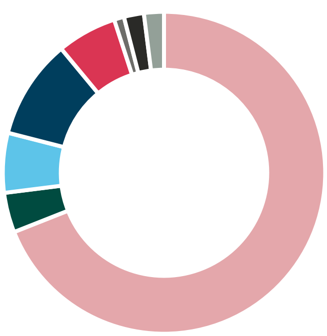
AAA	100%
AA	0%
A	0%
BBB	0%
BB and below	0%

Characteristics

Number of bonds	59
Yield to Maturity (real)	0.2%
Average Maturity	9.7 Yrs
Average coupon (real)	1.3%
Composite rating	AAA

Asset allocation

USA	69%
Sweden	4%
Japan	6%
Germany	10%
Canada	6%
Denmark	1%
Australia	2%
Cash	2%



Duration history

30 June 22	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

June 2022

In a year with so much macro-economic volatility, the relentless rise of the US Dollar has not received the attention that it deserves. Year-to-date the DXY index has risen by 12%. The DXY is something of an anachronism with undue weight (57%) placed on the Euro due to Europe's historically significant position as a US trading partner. Bloomberg's own, more balanced, Dollar Index is nonetheless up 9% this year. Dollar appreciation has offset weak performance of US TIPS. In local currency terms our TIPS holdings have fallen nearly 12% but in sterling terms the fall, cushioned by the dollar's rise, is closer to 1%.

Alastair is fond of saying that currency markets and rates markets are deeply intertwined and, to a large extent, the one is a mirror of the other. This year's returns are a *feature* and not a *bug* of our style of managing money. The prevailing wisdom amongst much of the financial community is that overseas bond holdings should be currency hedged while equity investments should be unhedged. The argument goes that government bonds are meant to form a defensive bedrock to a portfolio and holding them unhedged introduces currency volatility. The performance of the fund this year demonstrates how such an approach can come unstuck. That is not to say the hedged holdings of overseas bonds have no place in investor's portfolios: it can be prudent to constrain *overall* exposure to overseas currencies for investors with sterling liabilities, and government bonds are amongst the easiest assets to hedge. But it is not true that hedging *necessarily* reduces risk.

The Dollar's rise against the Euro is perfectly rational. The war in Ukraine, associated sanctions against Russia, and rising energy and food prices, will affect Europe much more adversely than the US. While the move has been extreme it does not appear entirely unwarranted. Much the same as can be said of the Euro is true for Sterling.

Performance of the Yen is more interesting and is harder to explain. It has fallen by 15% against the dollar year-to-date. The most often cited explanation for this move is the Bank of Japan's adherence to accommodative monetary policy via yield curve control. However, the yield differential between US and Japanese government bonds is at similar levels today as in 2018, and yet the Yen has depreciated 19% since then. In real terms the depreciation has been much greater.

Another explanation is that Japan's terms of trade are deteriorating since Japan imports most of its food and energy. While true, the Yen has been much weaker than the Euro and Korean Won which are subject to similar pressures. And while the Japanese current account balance is falling, it remains positive and is forecast to be higher than the 2012-2014 period. A related argument is that a weak Yen provides much less domestic stimulus than in the past as Japanese corporates have offshored large chunks of their manufacturing sector. However, compensation for this should arise in corporate profits whose overseas earnings should be rising when translated into Yen. Admittedly, those corporates may elect not to repatriate those profits, reducing near term demand for Yen. But, by not doing so, Japan's net foreign asset position goes up, increasing its long-term attractiveness.

One possible explanation is a rise in the Yen carry trade – borrowing in Yen to purchase higher yielding currencies and assets. Historically the Yen was the most popular currency for carry traders but in recent years – when many currencies offered negative nominal yields – its dominance diminished. It is possible that its use is on the rise again, though that seems inconsistent with the reduced levels of risk appetite among investors this year. It seems likely that the best explanation for the Yen's performance is a mixture of the carry trade and momentum (and for the time being, the one reinforces the other). We increasingly think that the Yen's value has become detached from fundamentals. Perhaps the clearest example of this is wage differentials. The average wage in the US is $69k, the OECD average is $49k, in Japan it is only $39k and yet Japan's productivity must surely be in-line with the OECD. With no obvious catalyst and negative momentum, it may be a long time before fundamentals reassert themselves. We are patient and maintain our overweight position in the fund.

CG Absolute Return Fund

Fund information as at:	Fund price:	Status:
30th June 2022	*£137.88*	*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	£920m
Dividend Yield	< 1.5%
Management Fee	0.35%
Total Expense Ratio	0.45%
Comparator Index	GBP SONIA

Return history (total returns)

1 month	-2.8%	2021	8.9%
3 months	-2.7%	2020	7.2%
6 months	-2.7%	2019	8.2%
Year to date	-2.7%	2018	1.5%
1 year	2.0%	2017	6.3%

Largest fund/equity holdings

Ishares MSCI JP ESG Screened ETF	3.4%
SPDR MSCI Europe Energy ETF	2.4%
Vonovia	2.2%
Grainger	1.9%
Ishares FTSE 100 ETF	1.7%

Performance since inception (total return)

Largest bond holdings

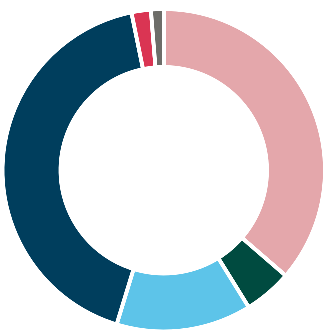
UK I/L 0.125% 22/03/24	6.7%
UK I/L 2.50% 17/07/24	2.9%
US I/L 1.375% 15/02/44	1.9%
US I/L 0.75% 15/02/45	1.8%
US I/L 1.00% 15/02/46	1.4%

Currency exposure

GBP	51%
USD	26%
SEK	3%
EUR	9%
JPY	7%
Other	4%

Asset allocation

Index Linked Gov't Bonds	36%
Conventional Gov't Bonds	5%
Pref Shares / Corp Debt	14%
Funds / Equities	42%
Cash	2%
Gold	1%



Fund/equity breakdown

Property	15%
Equities	12%
Infrastructure	8%
Loans	3%
Energy & Commodity	4%
Private Equity / Hedge	1%

Absolute Return Fund

June 2022

The second quarter of 2022 was challenging for investors. Equity markets were down nearly 10% in sterling terms, sterling bonds fell by 7.5%, credit spreads rose and commodities fell. Sterling denominated investors were offered some respite from overseas assets, but this served only to reduce, not eliminate, losses. There were, in summary, few places to hide and the fund lost –2.7% in the quarter. While we absolutely hate losing your money, we take some satisfaction that many of the changes made to the portfolio over the past 12 months cushioned the portfolio against greater falls. The Capital Gearing Portfolio Report sets out some of our better calls. Nevertheless, the prediction from the Q4 2021 report is spot on: "We hope to make better decisions this year. Even if we are successful, the high starting level of asset prices means the outcome will likely be worse".

The fund's holdings in European property - European logistics, German residential and Swedish commercial have presented the biggest challenges year-to-date and are the focus of our assessment for the quarter. Collectively these represent a little over 5% of the portfolio. These have delivered year to date declines of 21%, 33% and 41% respectively. The higher weighting to German residential means that, in contribution terms, it has been most costly of the three. To some extent, their travails share a common thread of rising discount rates. One of Peter's mantras in recent years has been that falling interest rates have been fantastic for owners of property, but we must not stick around "to watch that film run backwards". We should have heeded our own advice better. We haven't, however, been entirely asleep at the wheel; we have trimmed our property holdings to 14% of the portfolio versus their peak of 21.5% in Q1 2021.

The performance of our European logistics holdings has had some idiosyncratic features. The largest holding, Tritax Eurobox, has underperformed similar assets. This has more to do with supply and demand for the stock than sentiment towards its assets. The company has been exceptionally aggressive about raising additional capital. It should come as little surprise that, with near unlimited supply, its price can only go in one direction. We warned management and the board that this outcome might result from their decisions and take no comfort in having been proven right.

The performance of German residential is more puzzling. Our largest holding, Vonovia, now trades at a c. 57% discount to its net asset value. The market clearly believes that rental growth will disappoint, capital values will fall, LTVs are too high, and financing costs will go up. Taking the latter first, it is true that both interest rates and credit spreads have risen in Europe. However, with weighted average maturity of 7.7 years Vonovia is sheltered against this. The company has guided to rental growth of at least 3.3% this year and pointed out that during previous inflationary periods rents in Germany grew faster than inflation.

Rents are set via the Mietspiegel, a mechanistic formula that calculates rental growth based on recently agreed rents in the location. Recent Mietspiegel determinations have been in the range 4-12%. German residential property already trades significantly below replacement cost and new build cost inflation is running at double digits, so for capital values to fall valuers must: i) ignore rising build costs; ii) ignore rising rents; and iii) increase the discount at which they trade to replacement cost. It is impossible for valuers to ignore market transactions and so valuations could come under pressure should owners become forced sellers. If capital values hold up, then Vonovia's balance sheet will naturally de-gear through a reduced investment programme, increased sales, and through rental growth.

A simpler explanation – which is merely the corollary of the fall in price – is that public market investor's required rates of return have increased. Prior to this year, Vonovia's dividend yield spread over 10 year index linked German government bonds averaged 4.2%. We have always felt and continue to believe that such a spread more than adequate compensation for the risks.

We should have paid closer attention not to our required rates of return but to those of other market participants. Nevertheless, the current 5.8% dividend yield which we think should grow *at least* in line with inflation looks extraordinary value, we maintain conviction in our position.

1.Though they aren't always set annually. Berlin, for example, operates on a two year cycle.

Capital Gearing Portfolio Fund

Fund information as at:	Share prices:	Status:
30th June 2022	*P shares £38,177* *V shares £185.67*	*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	£380m
Dividend Yield	< 1%
Management Fee	0.75%
Total Expense Ratio	0.85%
Comparator Index	3m Libor

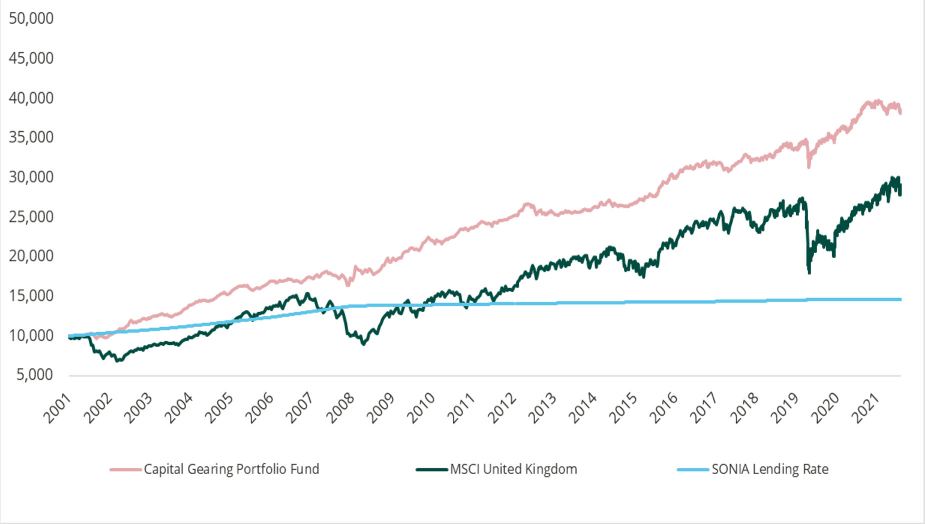
Return history (total returns)

1 month	-2.6%	2021	10.3%
3 months	-2.7%	2020	7.3%
6 months	-3.5%	2019	7.6%
Year to date	-3.5%	2018	1.5%
1 year	1.3%	2017	4.9%

Largest fund/equity holdings

Ishares MSCI JP ESG Screened ETF	3.5%
North Atlantic Smaller Co's	2.8%
SPDR MSCI Europe Energy UCITS ETF	2.3%
Vonovia	2.1%
Grainger	1.9%

Performance since inception (total return, P Shares)



Largest bond holdings

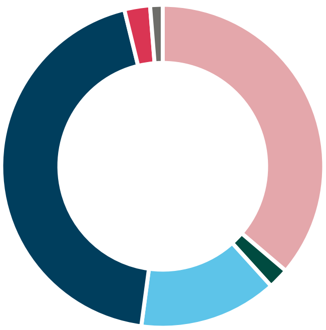
UK I/L 0.125% 22/03/24	6.1%
US I/L 2.375% 15/01/27	2.5%
UK I/L 2.50% 17/07/24	2.3%
US I/L 1.375% 15/02/44	2.1%
US I/L 0.75% 15/02/45	2.0%

Currency exposure

GBP	51%
USD	26%
SEK	3%
EUR	9%
JPY	8%
Other	4%

Asset allocation

Index Linked Gov't Bonds	36%
Conventional Gov't Bonds	2%
Pref Shares / Corp Debt	14%
Funds / Equities	44%
Cash	3%
Gold	1%



Fund/equity breakdown

Property	15%
Equities	12%
Infrastructure	8%
Loans	4%
Energy & Commodity	4%
Private Equity / Hedge	1%

Capital Gearing Portfolio Fund

June 2022

“I can’t eat an iPad” heckled an audience member at the New York Federal Reserve Governor during a 2011 speech. Bill Dudley was trying to explain how rising food prices had been offset by the falling cost of technology and one can assume he felt this powerful retort to his technocratic speech.

It is a great shame that, to paraphrase, “you can’t eat relative performance” as this quarter would have been a sumptuous feast. All the major asset classes within the fund – risk assets, corporate credit and government bonds - comfortably outperformed their respective benchmarks. Unfortunately, against a backdrop of near-universally falling asset prices, this relative outperformance still resulted in a return of -2.7% in the quarter (-3.5 YTD Q2).

Mindful of this bitter pill, it was pleasing to see the defensive attributes of the portfolio come to fore. The strongest relative performance came from the credit portfolio. The backdrop was weak as rising risk-free rates and ballooning credit spreads caused the sterling corporate bond index to fall by more than -8% in the period. The fund was protected by short duration and high-quality character of its credit portfolio. The first exciting glimmers of value in the credit market are beginning to emerge, so the weighting to credit increased by 3% to 13%, and it is likely that this weighting will continue to rise.

Risk assets represent 44% of the portfolio and returned -5.4%, which compared favourably to the Investment Trust Index which was down -11.7%. Infrastructure and UK property holdings, which collectively comprise 17% of the portfolio, delivered positive returns. Renewable energy infrastructure continues to benefit from high-power prices and performed solidly despite the threat of a windfall tax on UK power generators. Given the continuing tailwinds we added to our positions by taking placings in both Bluefield Solar Income Fund and Downing Renewable & Infrastructure Trust. The UK property returns benefited from a bid for one of our largest holdings, Secure Income REIT. Profits were also taken in Supermarket REIT, a position that was built in an April placing, only to exit completely into an index rebalance in June, at pleasingly higher prices.

The weakest returns of -24% came from European property holdings, which make up about 6% of the portfolio. These positions comprise of pan-European logistic “sheds”, German residential “beds” and Swedish commercial property. Whilst Europe is facing a clear recessionary risk it is hard to identify a deterioration in the underlying dynamics of these property companies that would justify such a dramatic rerating. With yields above 5% and growth underpinned by regulated rents that will rise proximately with inflation, we are excited about prospective returns from these assets.

Index linked government bond holdings, representing 34% of the portfolio, were broadly flat because of two powerful and offsetting dynamics. Global bond yields have risen dramatically, as persistent inflation has turbo charged a new interest rate rising cycle. Offsetting these losses were significant foreign exchange gains as sterling weakened relative to the dollar. Our response has been to sell many of our short TIPS holdings, crystallising the foreign exchange gains and repatriating the proceeds to sterling. For the remaining TIPS holdings (19% of the portfolio) we have lengthened the duration locking in the improved value. We believe the 1.2% real yields available on 20 year TIPS are extremely attractive in a world that is likely to be characterised by negative short real yields for many years and potentially decades to come.

CG Asset
Management

20 King
Street London EC2V
8EG

+(44) 203 906 1633

info@cgasset.com

www.cgasset.com