



CG UK Index-Linked Fund

Fund Launch Presentation

November 2023

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Why Index-Linked?

Preserving purchasing power

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Why index-linked?

Index-linked bonds are an essential building block of any multi-asset portfolio



Protect purchasing power

UK Linkers held to maturity guarantee growth in investors' purchasing power



Protect against financial repression

Index-linked are the only asset which reliably protect investors against financial repression



Low / negative correlation to risk assets

Believe negative correlation of index-linked bonds to equities more enduring than to normal bonds



Historic outperformance vs nominals

Linkers have historically outperformed nominals. We expect this outperformance to continue



Perform well over wide range of scenarios

Indexed-linked are the closest thing to 'all weather' investments



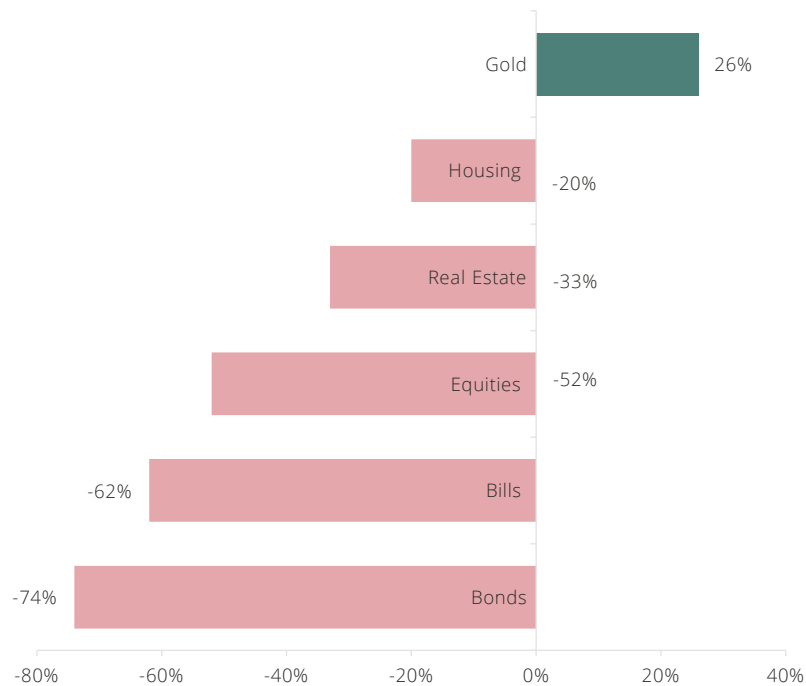
Benefit from regime change

We believe we are entering a new environment characterised by elevated inflation

Why index-linked?

The historical impact of unanticipated inflation on asset prices has been broadly negative - including those that are deemed to be real

Real Return vs. Inflation 1900-2011



Regression of annual real return vs. same-year inflation across 19 developed countries

Source: Credit Suisse Global Investment Returns Yearbook 2012, Dimson and Marsh

“

For a variety of reasons reviewed here, inflation tends to raise investors' required real rate of return on equity and to lower real capital income for tax-related reasons. As a result there is a strong negative correlation between inflation and real and nominal stock prices.

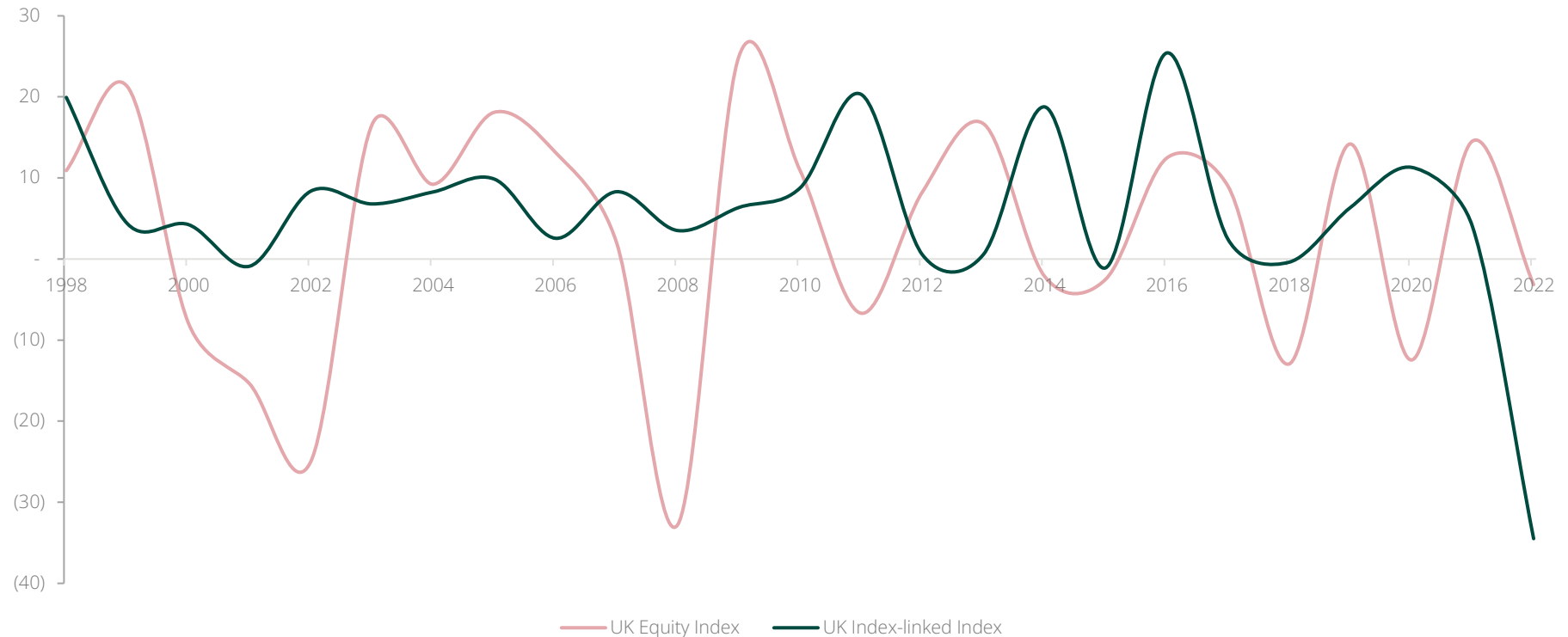
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John Tatom, Nov 2011
Inflation and Asset Prices

Why index-linked?

Historically, UK index-linked have had low correlation with UK risk assets and offer excellent diversification to them

Annual return – UK Index-Linked vs. UK Equities (%)



Source: Bloomberg Finance L.P., CGAM

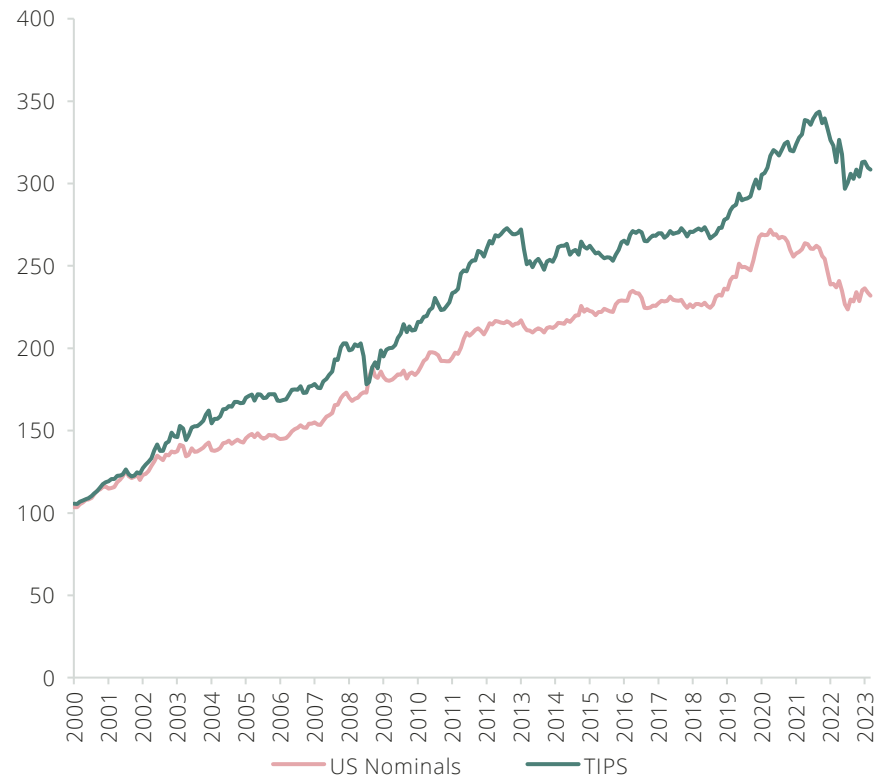
Why index-linked?

Index-linked bonds have outperformed nominal bonds since the turn of the century. We believe this outperformance will continue

Index-Linked Bond – Total Returns (UK)



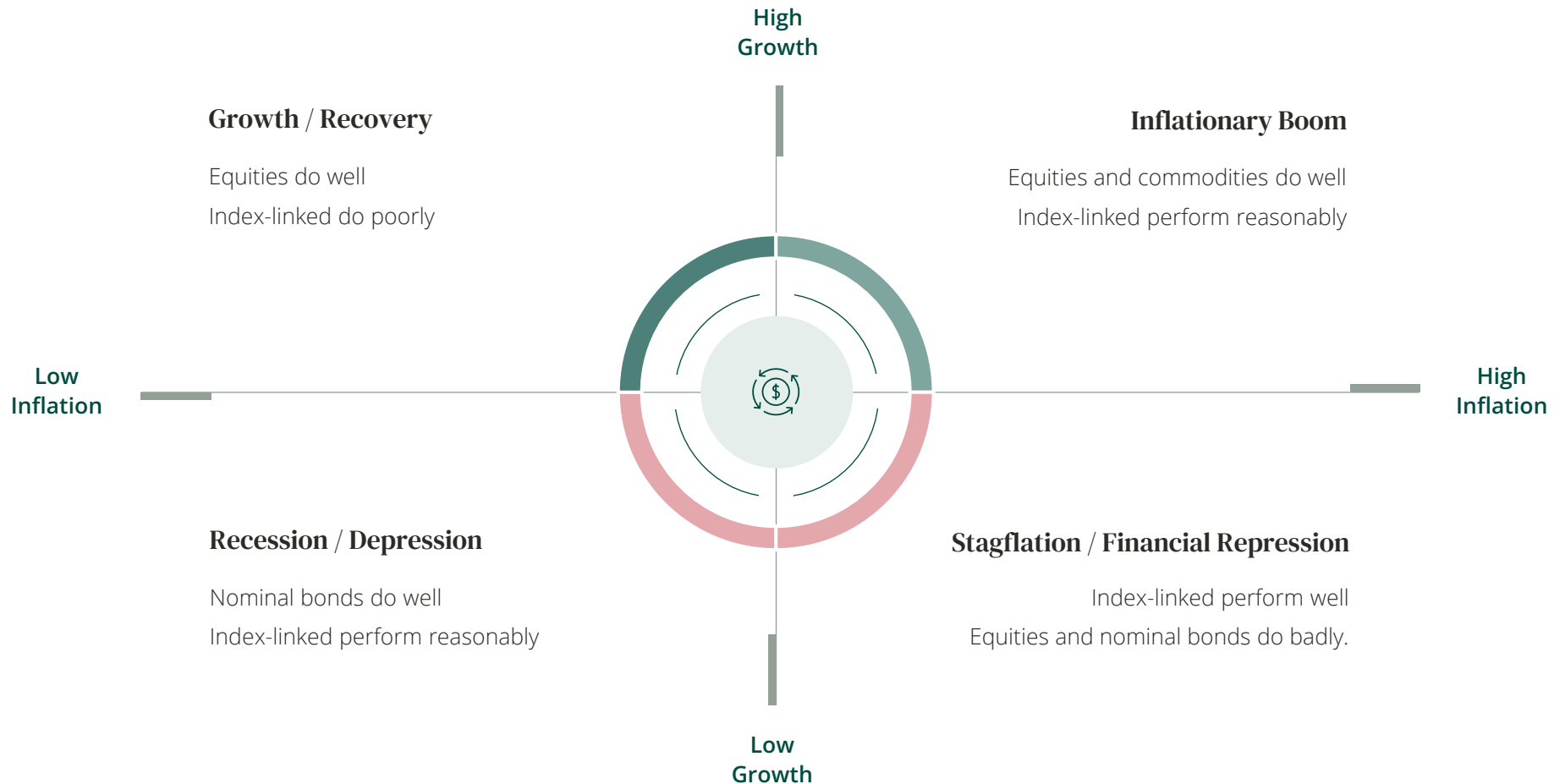
Index-Linked Bond – Total Returns (US)



Source: Bloomberg Finance L.P.

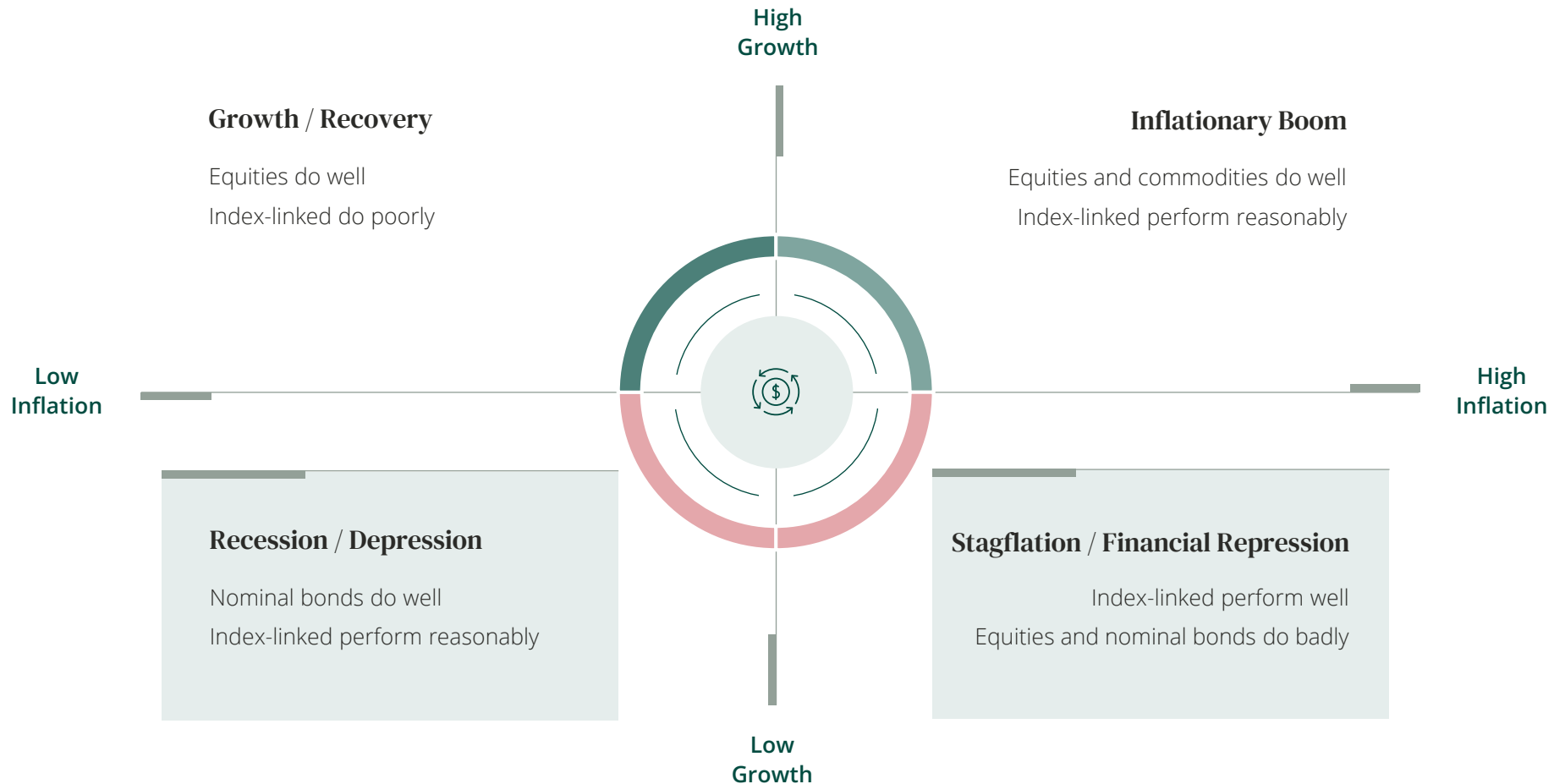
Why index-linked?

Index-linked bonds are the most reliable protector against financial repression / stagflation



Why index-linked?

...and they look set to perform in either of the most likely scenarios that the UK economy might face



Why index-linked?

The UK has experienced prolonged elevated inflation – even relative to other developed economies – and core inflation persists at challenging levels

Headline inflation in the UK, US and EU (YoY, %)



UK Core CPI (YoY, %)



Source: Bloomberg Finance L.P., Office for National Statistics.

Why index-linked?

...and there are several indicators to suggest that UK inflation will be stickier than markets expect

UK Average Weekly Earnings Growth (3m avg, YoY, %)



UK Housing Rental Growth (Actual Rents) (YoY, %)



Source: Bloomberg Finance L.P., Office for National Statistics

Why index-linked?

We believe that the disinflationary era that has characterised the last 25 years has come to an end



Globalisation Unwind

- Deflationary tailwind of globalisation diminishing as China wages approach those of developed economies
- Reshoring will increase costs
- Significant capex required to bring about reshoring will be inflationary



Energy Transition

- Energy transition will require massive capital investment
- Likely to generate a shortage of key materials notably copper and other metals
- Requires decommissioning of otherwise productive assets



War / Defence

- Defence spending will rise globally in response to Russian war in Ukraine
- Trade will continue to flow along political rather than economic lines
- Massive rebuilding programme for Ukraine will be required



Capital vs. Labour

- Labour share of GDP has been falling
- Unionisation and union assertiveness is rising in response to recent inflation

Why now? Why active management?

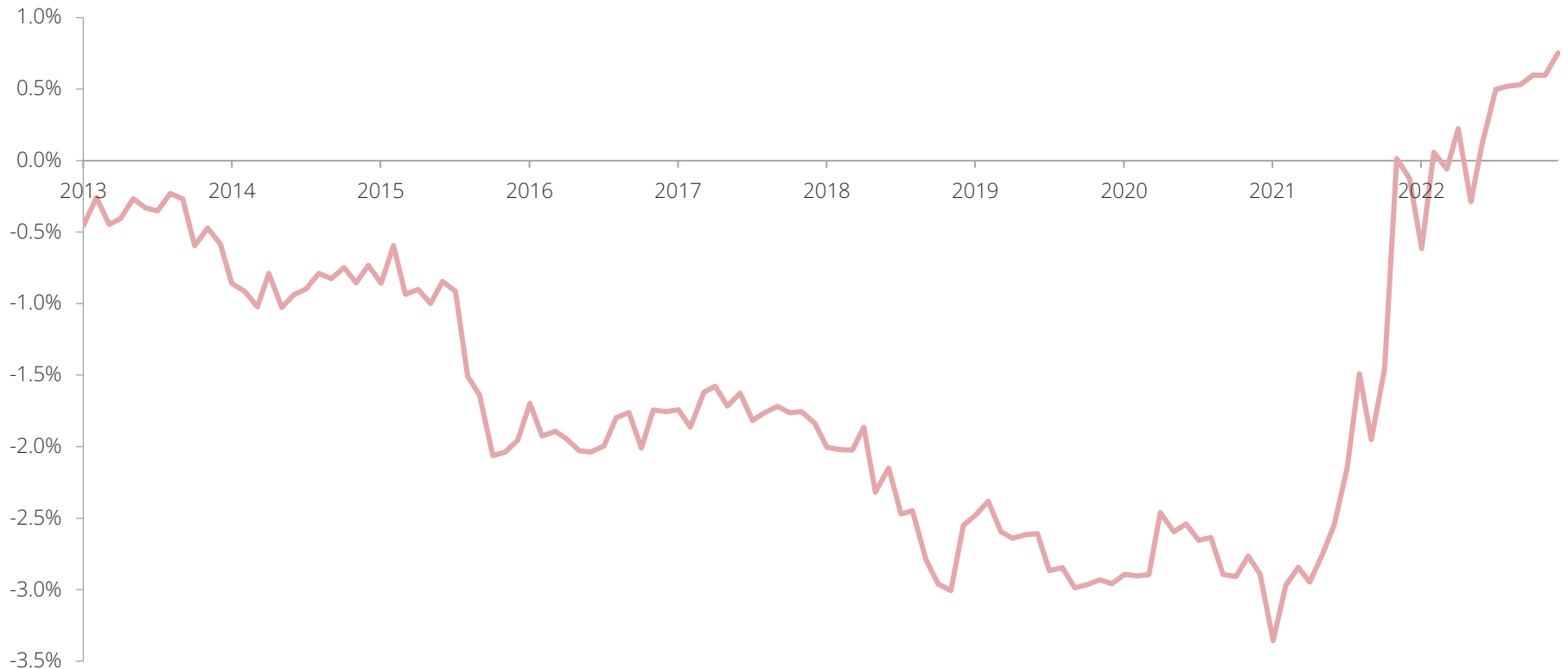
Attractive real yields

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Why now? Why active management?

UK index-linked bonds have gone from being uninvestable to good value in the space of 18 months...

UK 10 Year Real Yield (%)



Source: Bloomberg Finance L.P.

Why now? Why active management?

...and the yields compare favourably with other high-quality jurisdictions

10 Year Real Yields – by jurisdiction (%)

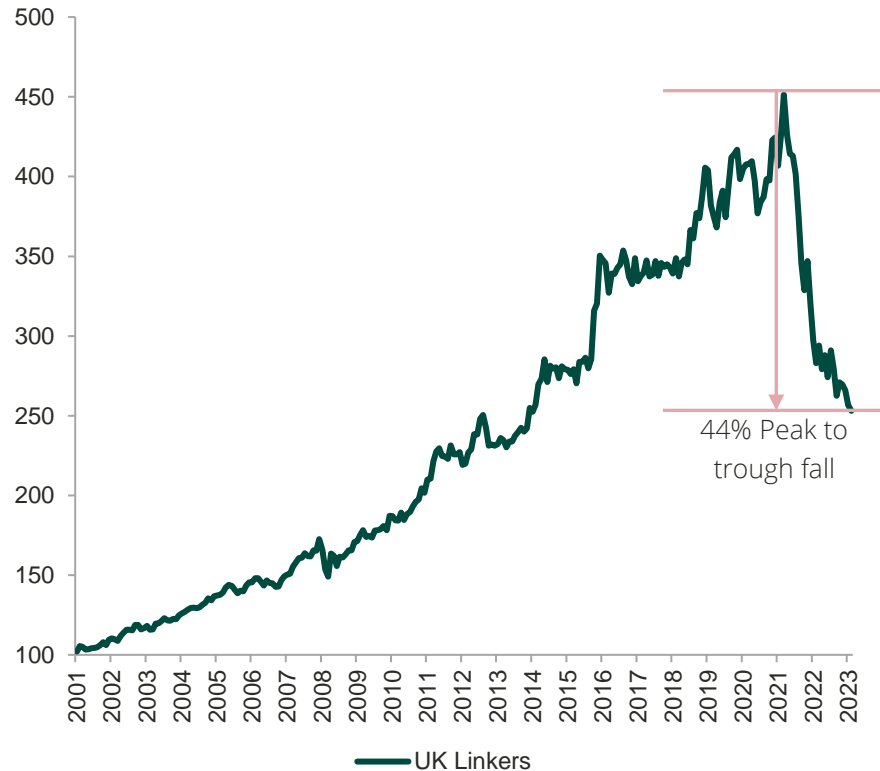


Source: Bloomberg Finance L.P.

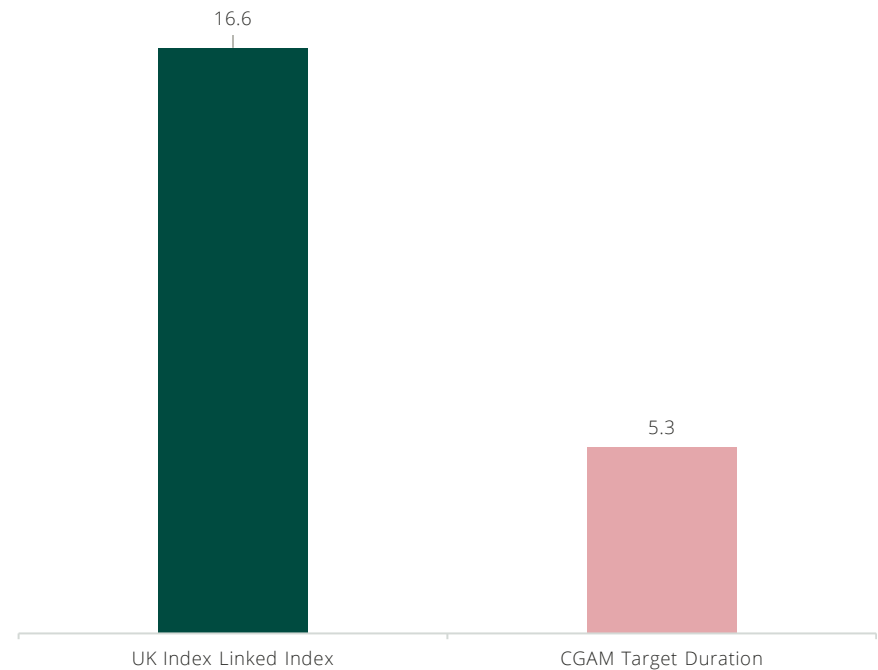
Why now? Why active management?

Passive UK index-linked bond funds don't meet the needs of individuals due to the long duration of the Index

UK Index-Linked total return index¹⁾



UK Index-Linked Index duration (years)

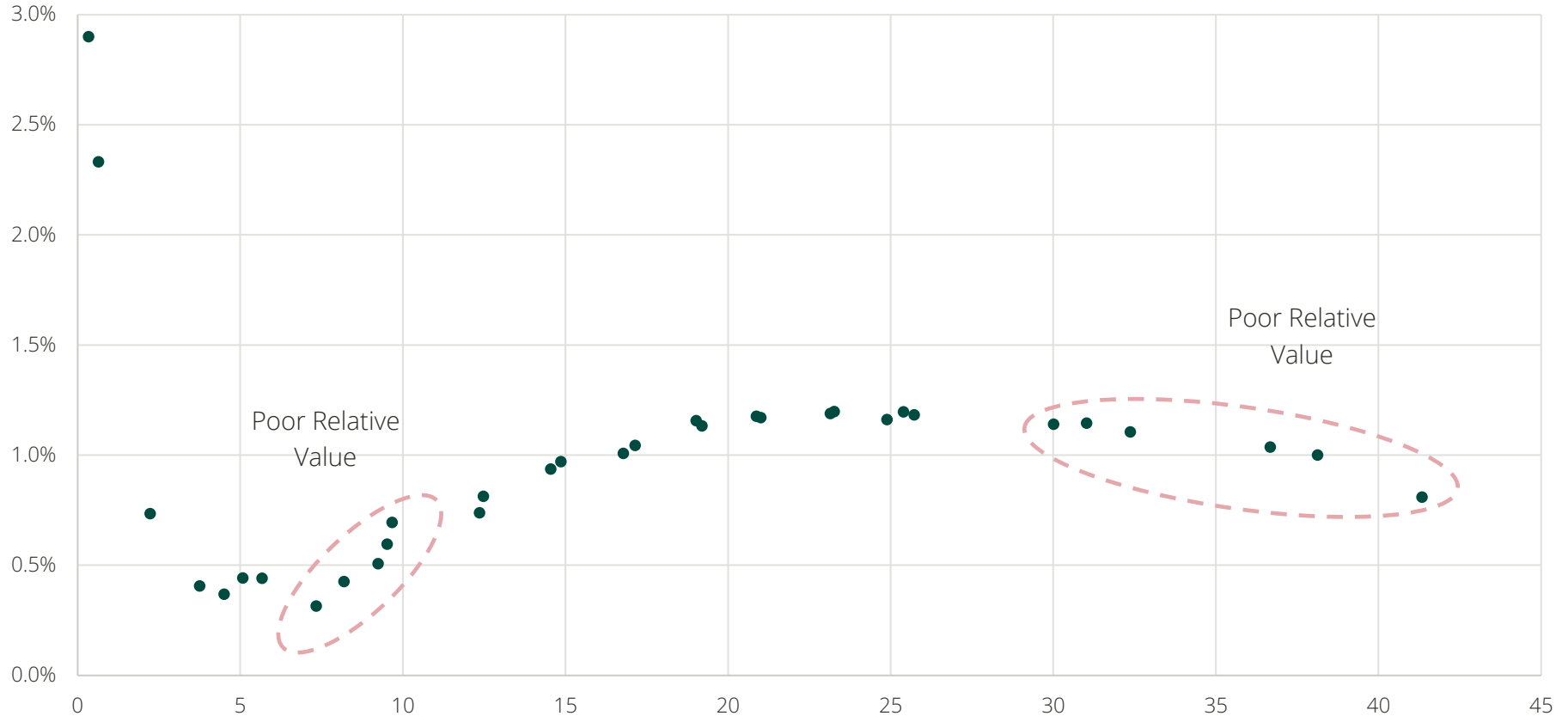


1. UK Index-Linked Index refers to Bloomberg UK Govt Inflation-Linked All Maturities Total Return Index
Source: Bloomberg Finance L.P.

Why now? Why active management?

The shape of the yield curve is driven in part by non-fundamental factors which creates opportunities for active management

UK index-linked yield curve



Source: Bloomberg Finance L.P.

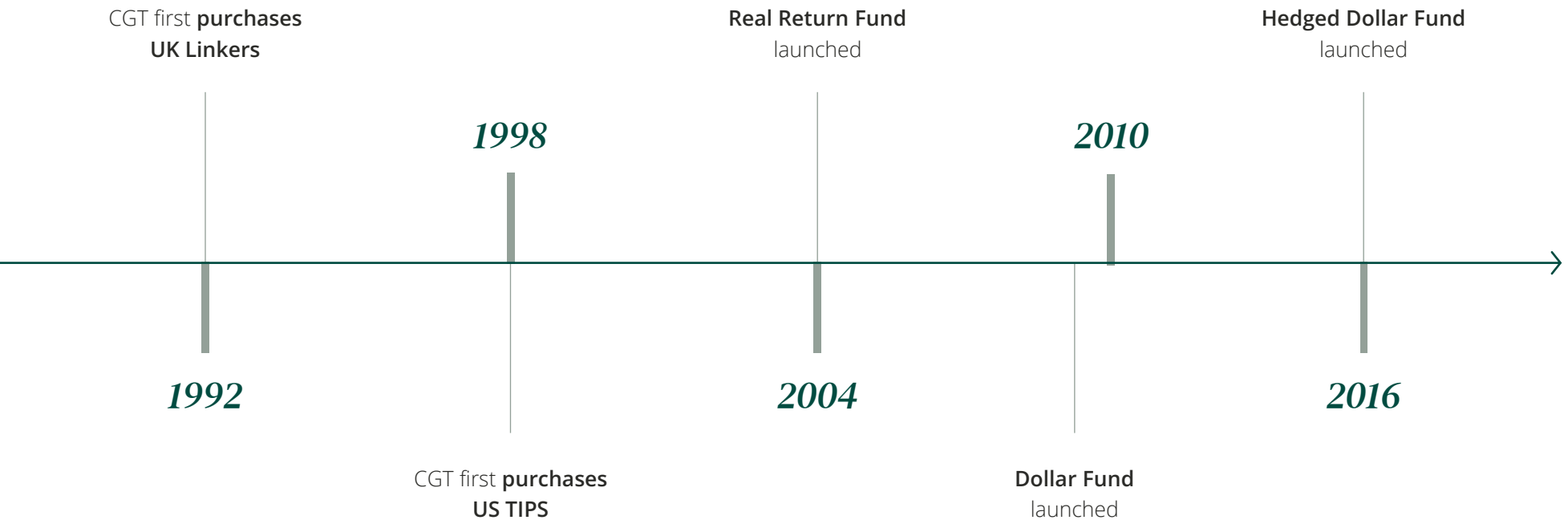
Why CG Asset Management?

A focussed boutique

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Why CG Asset Management?

CGAM has a long pedigree of investing in index-linked bonds



CGAM manages **£2.4bn in index-linked** bonds across **8 jurisdictions**, including **£500m in UK index-linked**.

Why CG Asset Management?

Our existing index-linked funds have outperformed their benchmarks since their inception, and we manage more than £2.4 bn in index-linked globally

Dollar Fund – Performance since inception



Real Return – Performance since inception

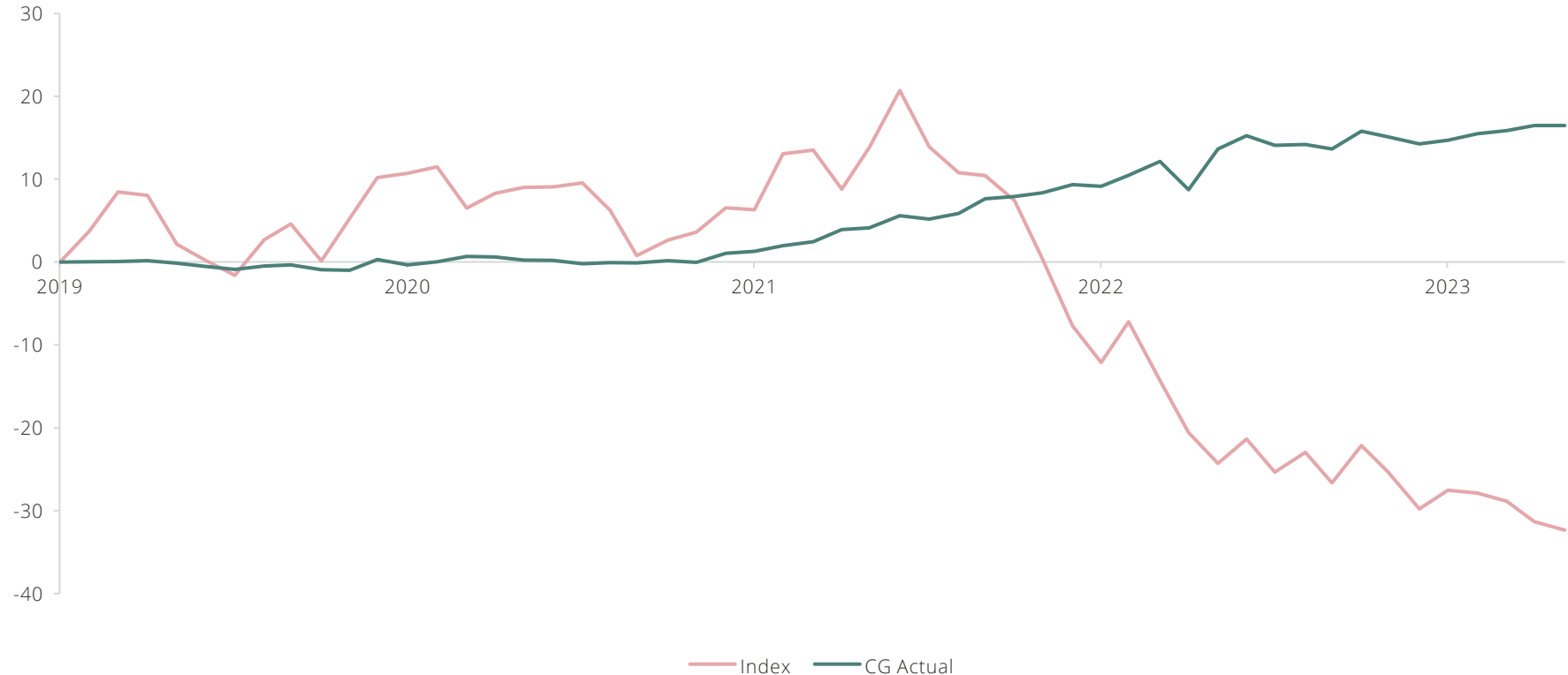


Source: Bloomberg Finance LP, Northern Trust

Why CG Asset Management?

Our holdings of UK linkers have dramatically outperformed the index in recent years

CG Performance – UK Linker Holdings



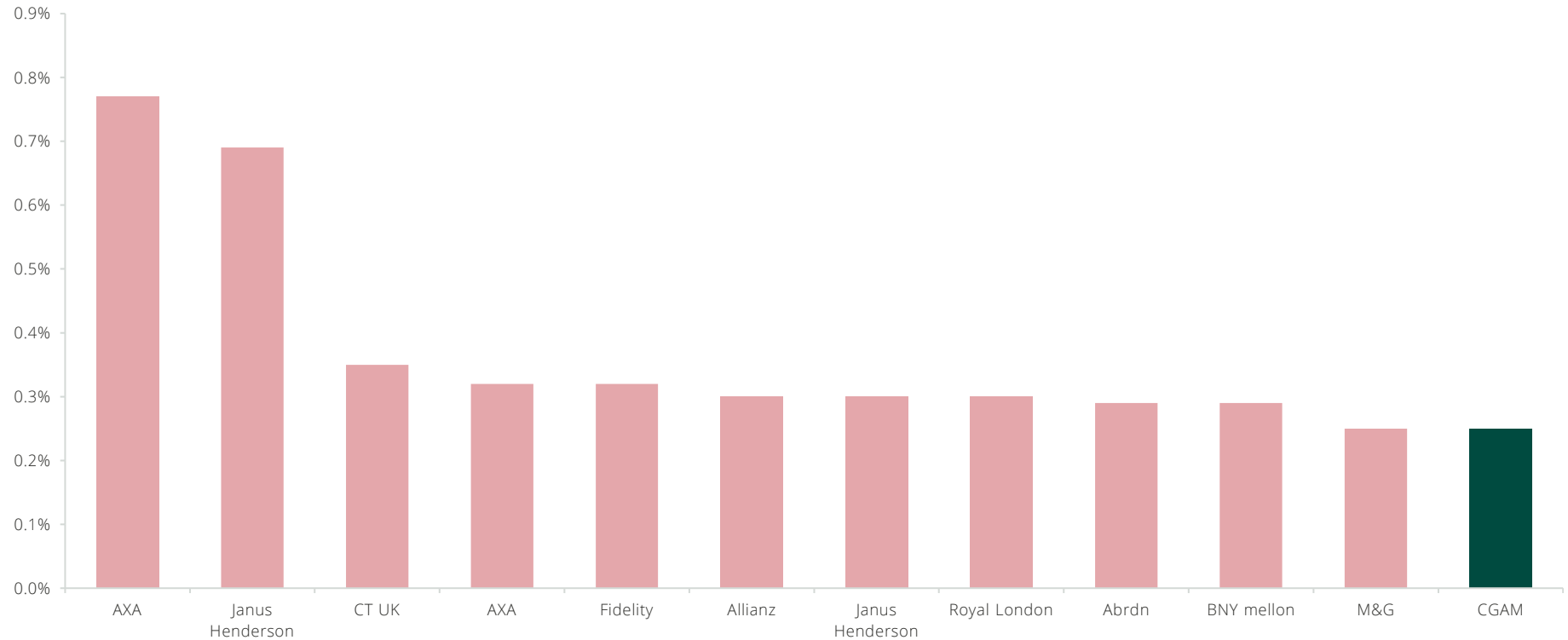
CG Actual represents performance of CGAM UK index linked holdings within Capital Gearing Trust. Index refers to Bloomberg UK Govt Inflation-Linked All Maturities Total Return Index. Please note these analyses are theoretical and should be construed in that light.

Source: Northern Trust, Bloomberg Finance L.P., CGAM

Why CG Asset Management?

The fund is forecast to have the joint lowest TER of UK actively managed index-linked gilt funds

UK Actively Managed Index- Linked Bond Fund TERs (%)



CGAM TER is a forecast, actual TER may differ from this
Source: Morningstar

Fund details

Fund Name	CG UK Index-Linked Fund
ISIN	IE000ZSVG218
Min Investment	£100,000 (waived at director's discretion)
Administrator	Northern Trust
Auditor	Ernst & Young
Manager	MJ Hudson Fund Management (Ireland) Limited
Investment Manager	CG Asset Management Limited
Legal Adviser	McCann Fitzgerald
Fund Structure	Irish UCITS fund, regulated by Central Bank of Ireland, recognised by the Financial Conduct Authority. UK reporting status will be sought after launch

Fund Characteristics:

Fund Size*	£500 k
Management Fee	0.15%
Total expense ratio*	0.25%
Fund holdings	UK govt. index linked bonds
No. of holdings*	7 launch / 16 target
Portfolio Real Yield*	0.8%
Portfolio Duration*	4.9 years

* Based on current portfolio at launch, actual portfolio composition and characteristics may vary significantly from this

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