

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 background is a dark, textured rock wall with horizontal and diagonal lines.

# CG Asset Management

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*Capital Gearing Trust*

December 2023

**cgam**

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# *Capital Gearing Trust*

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*Overview*

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# Capital Gearing Trust Overview

## Investment Objective



- The Company's objective is to preserve, and over time to grow shareholders' real wealth
- The Company seeks **cost-effective, long-term absolute returns** via a global portfolio of equities, bonds and commodities
- Simple low-cost approach, no derivatives, no gearing, no short selling
- The Trust is actively managed, without reference to a benchmark

## Fees and Structure



- Size: **£1.1bn**
- Management Fee: **0.37%<sup>1</sup>** | Ongoing Charge Figure: 0.46%
- FTSE 250 Listed Investment Trust with a **41-year track record**
- Discount Control Mechanism: The Company aims to purchase or issue shares to ensure, in normal market conditions, that the share price closely tracks the underlying Net Asset Value per share

## Investor Profile



The fund has a broad range of investors who typically share the following characteristics:

- A long term investment horizon
- An aversion to significant loss over the short term
- A desire to generate returns ahead of inflation over the longer term
- A focus on GBP returns

1. Tiered fee structure, marginal rate is 0.3% above £500m

# CG Asset Management Overview

**2001**

*Founded*

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

**£3.7bn**

*AUM*

£3.7bn in assets under management

**2**

*Strategies*

Manages two strategies, absolute return and real return, across six funds

**12**

*Employees*

Team of 12, based in London

**257x**

*Return*

Low cost offering, with fee reductions regularly reviewed

**2**

*Down Years*

Capital Gearing Trust ("CGT") has returned 257x since 1982, with only two down years

# CGAM in partnership with our clients

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## What makes us different?

### The firm's founding principles



## What does that mean for our clients?

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'll 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 our clients' interests
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Overview

# CGAM Team

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## Investments & IR



**Peter Spiller**

*Co - Chief Investment Officer*



**Alastair Laing**

*CEO, Fund Manager*



**Chris Clothier**

*Co - Chief Investment Officer*



**Chris Taylor**

*Chief Operations Officer*



**Jason Barlow**

*Senior Operations Manager*



**Richard Goody**

*Senior Compliance Officer*



**Hassan Raza, CFA**

*Investment Manager*



**Emma Moriarty**

*Investment Manager*



**Lydia Groves**

*Investor Relations*



**Sasaan Keshmand**

*Data Analyst*



**Finn**

*Chief Morale Officer*



**Sindy Somander**

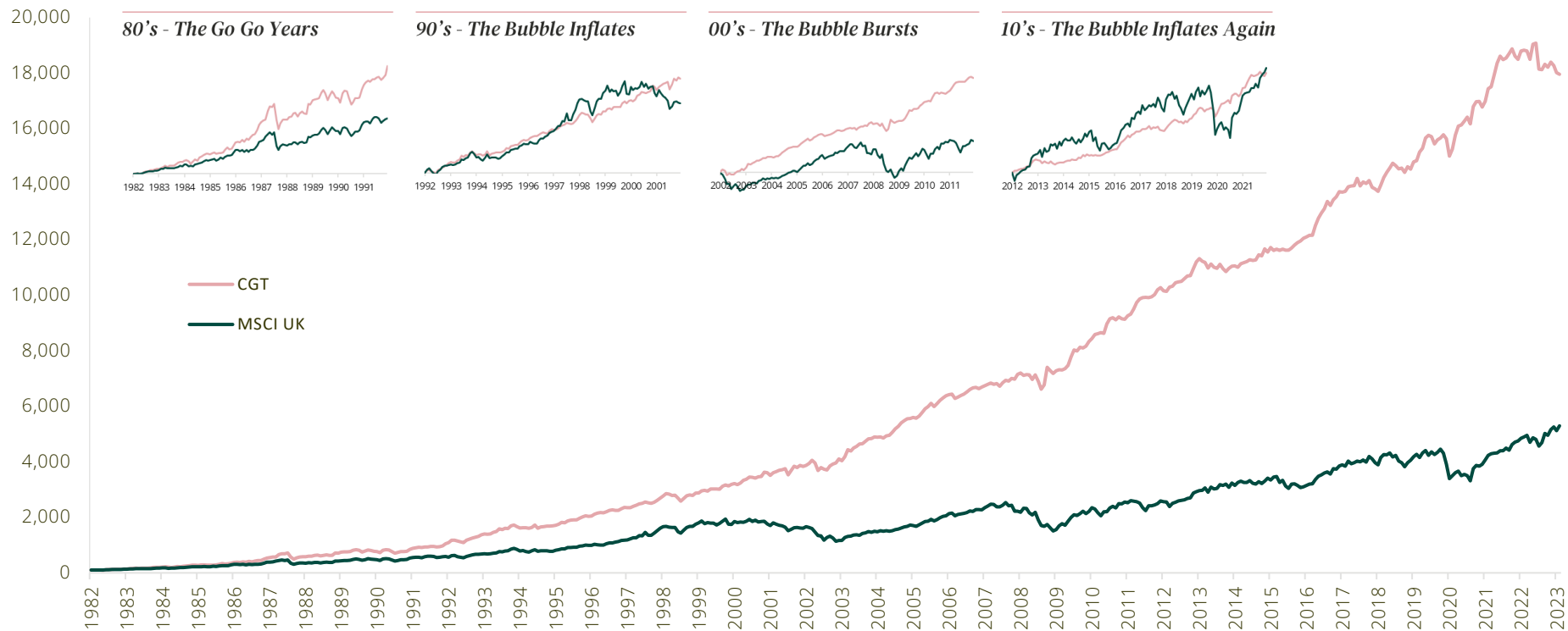
*Finance & Reporting Manager*

## Risk & Compliance

Overview

# Since 1982 the CGT share price total return has been 257x<sup>1</sup>

## NAV Total Return History (Rebased) Apr 1982 to Apr 2023



CGT TR 45% 49% 29% 35% 47% 3% 30% 2% 19% 18% 30% 18% 5% 20% 13% 17% 4% 10% 11% 10% 3% 22% 15% 15% 5% 7% 0% 18% 8% 10% 11% (2)% 5% 3% 13% 0% 8% 1% 14% 11% (4)%

<sup>1</sup> Share price terms, assumes all dividends reinvested over the period specified

Source: Northern Trust, Morningstar



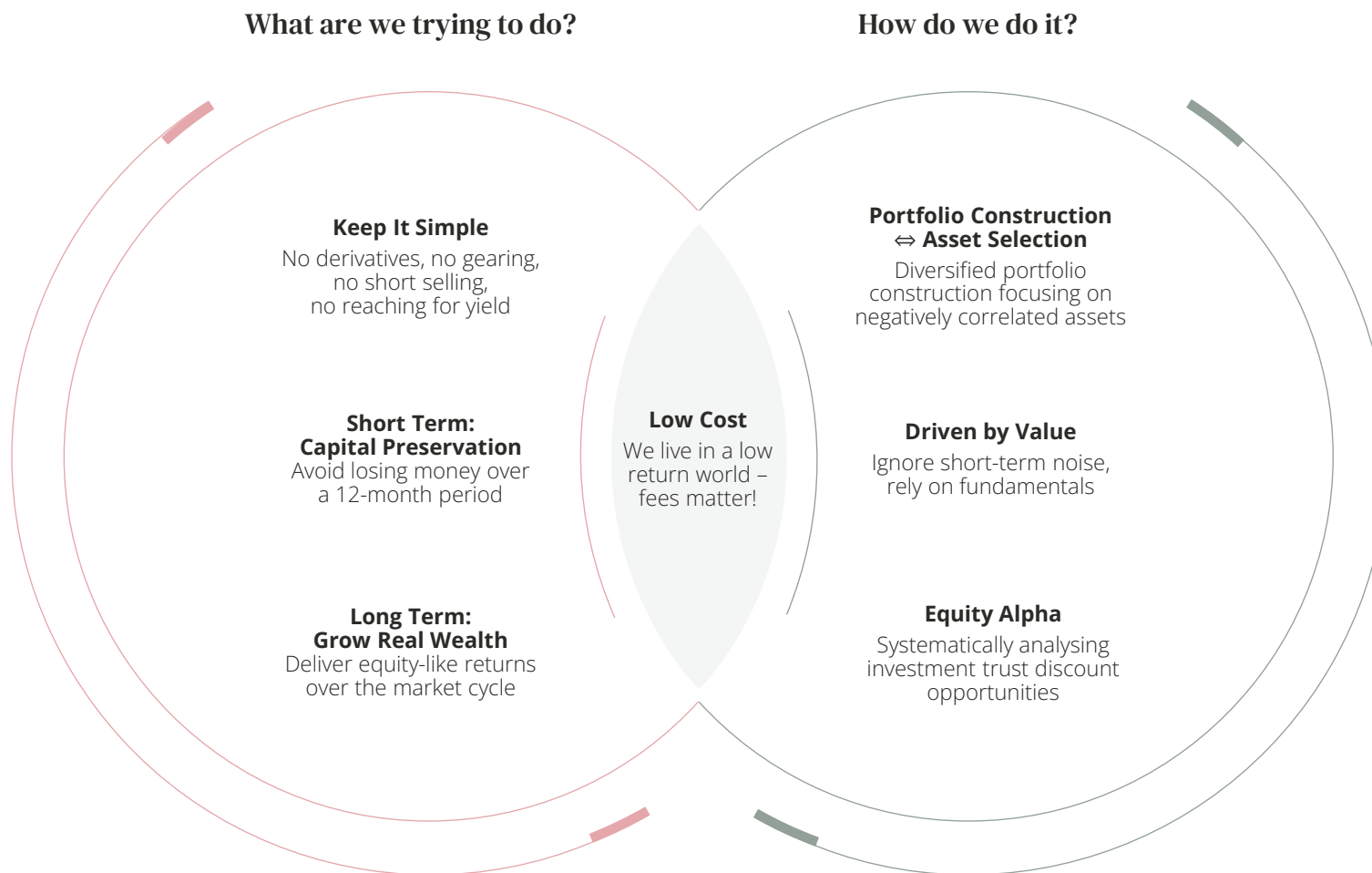
# *Investment Process*

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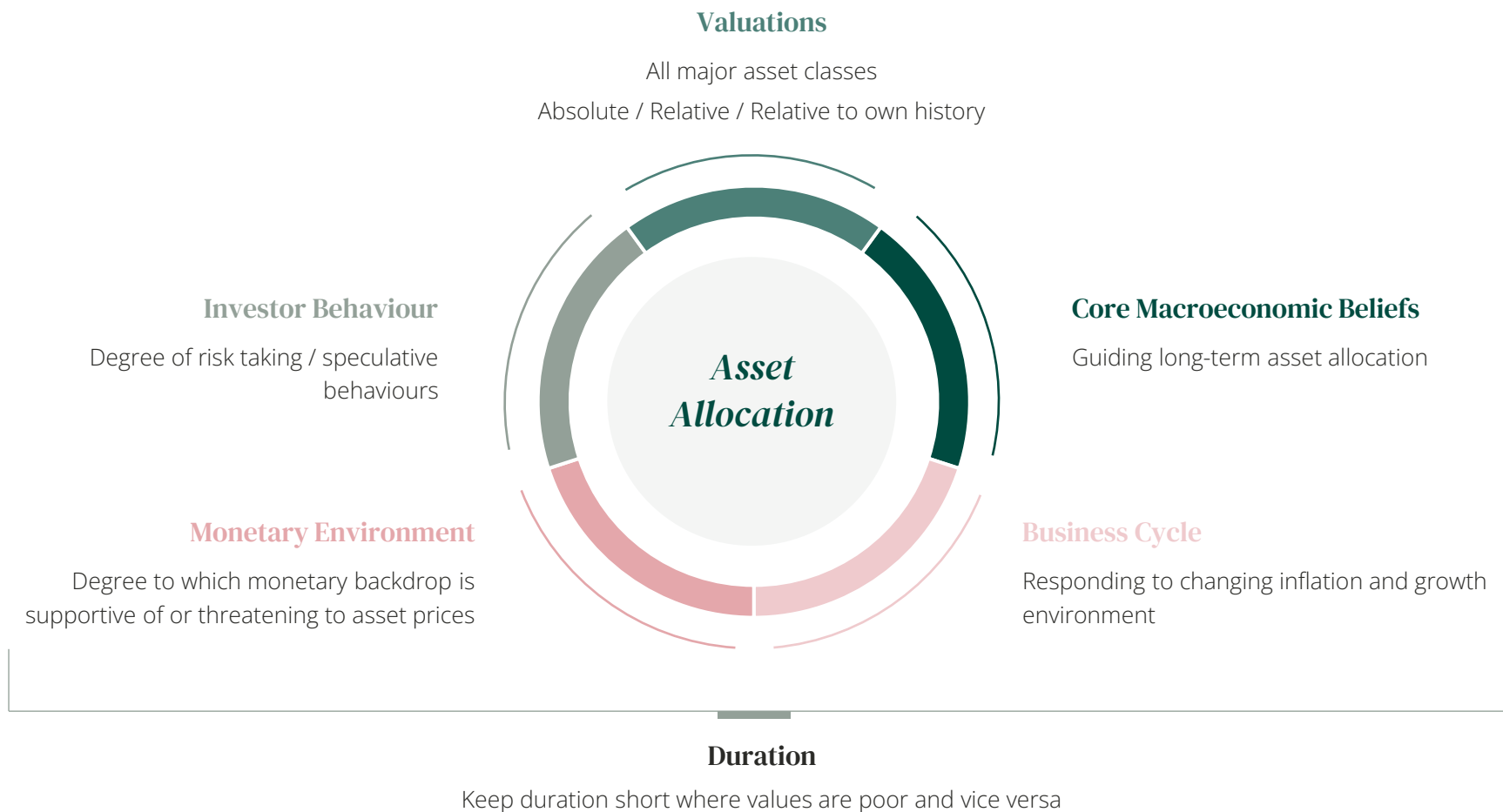
*Capital Gearing Trust*

**cgam**

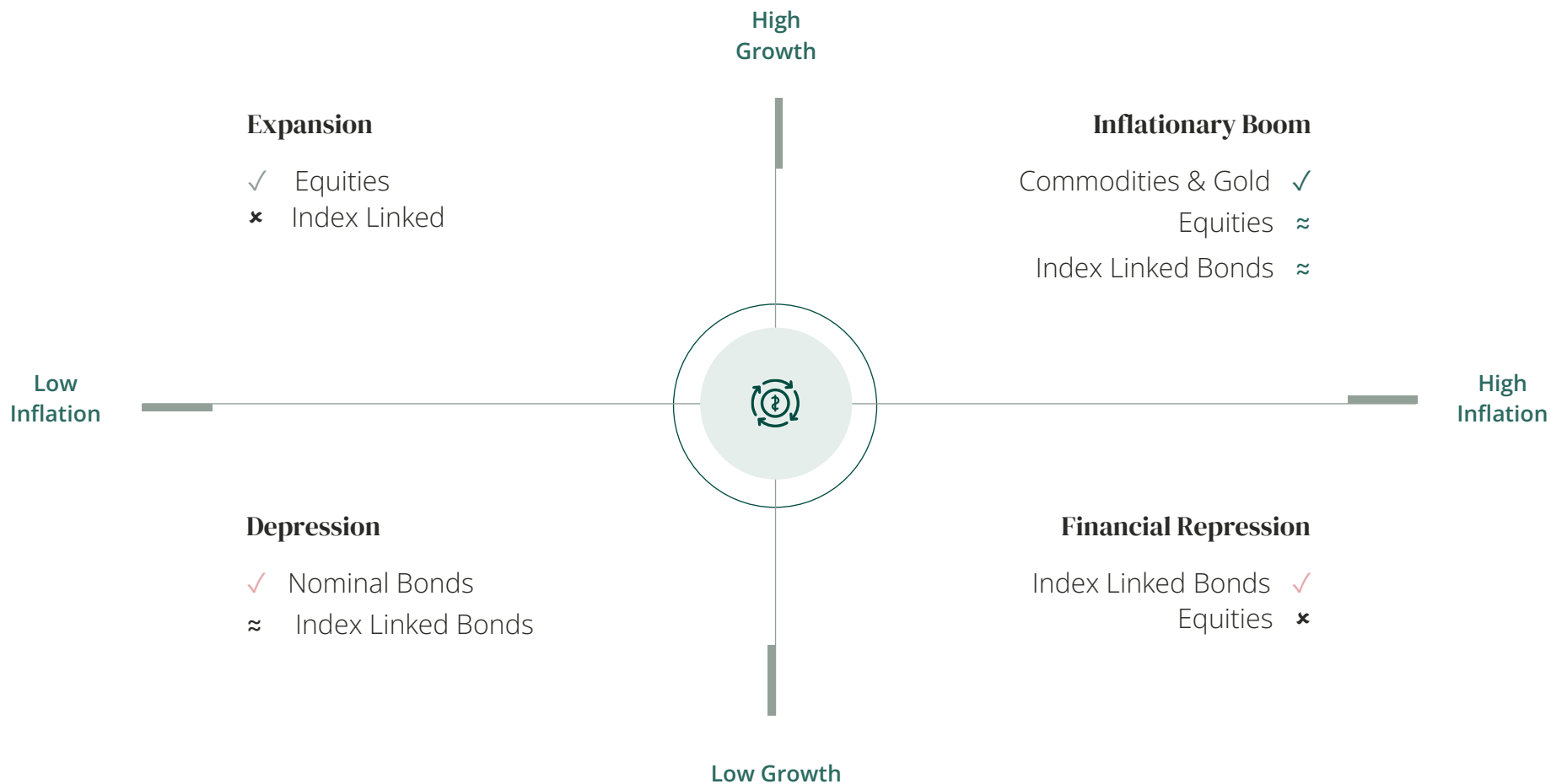
# Principles



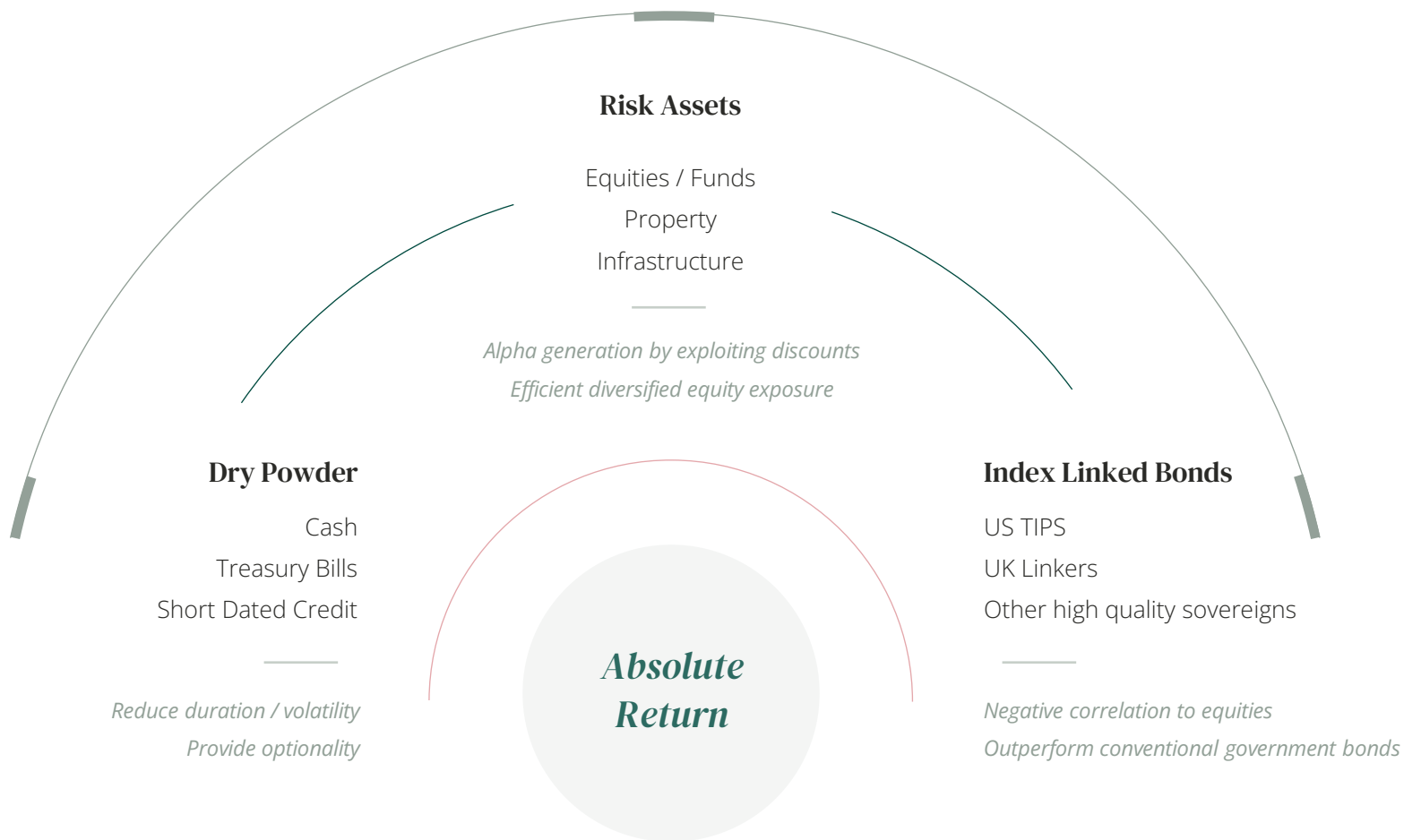
# 5 inputs drive our asset allocation, underpinned by a focus on duration



# Dynamic asset allocation that responds to the business cycle



# 3 Core Asset Allocation Pillars



# Index-Linked bonds are a fundamental component of our asset allocation

## Protection against financial repression

Only asset that we believe is likely to deliver protection

## Negative correlation with risk assets

Particularly overseas against sterling denominated risk assets

## Historic outperformance vs nominal bonds

Such outperformance likely to persist into future

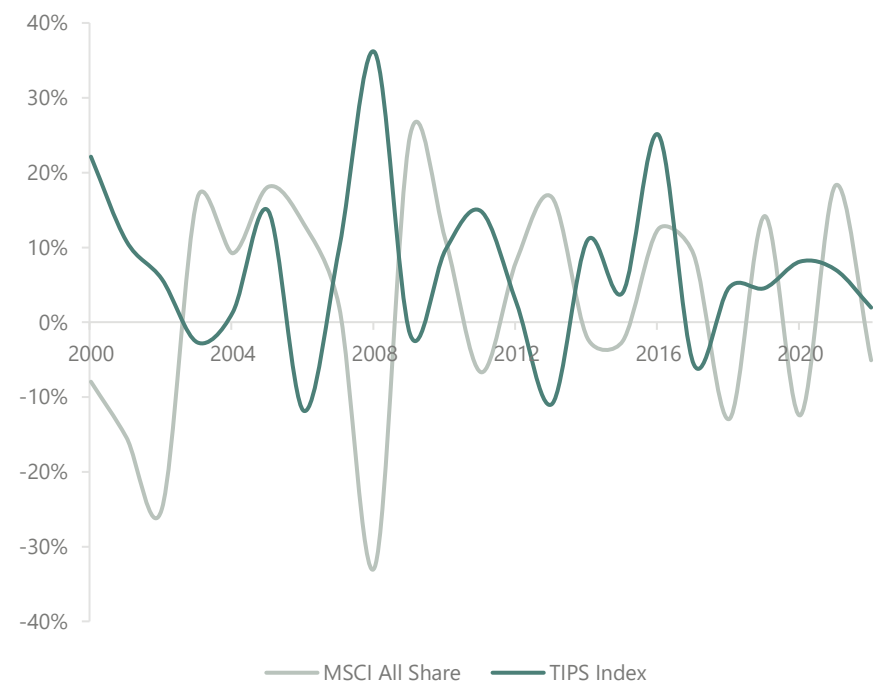
## Inflation as greatest risk to investor wealth

Against which equities are only a partial hedge

## Significant risk of inflation persistence

Historical record is not supportive of a swift return to target

Annual Returns % of a UK Stocks and TIPS – unhedged in GBP (1998 – 2022)



# *Capital Gearing Trust*

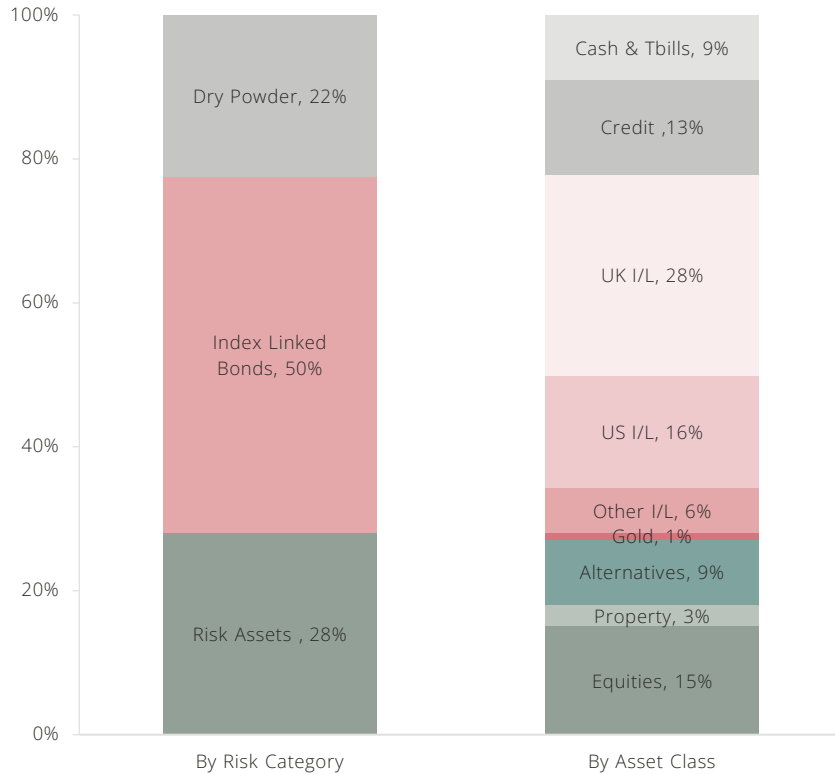
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*Positioning and Returns*

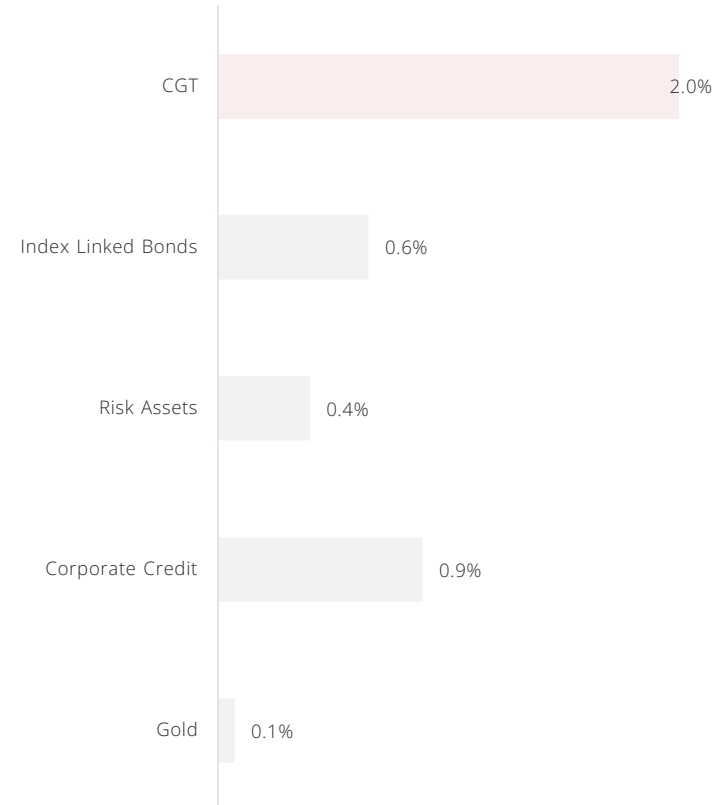
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# Positioning is defensive, with a focus on inflation protection

CGT Asset Allocation December 2023



Contribution by Asset Class LTM December 2023

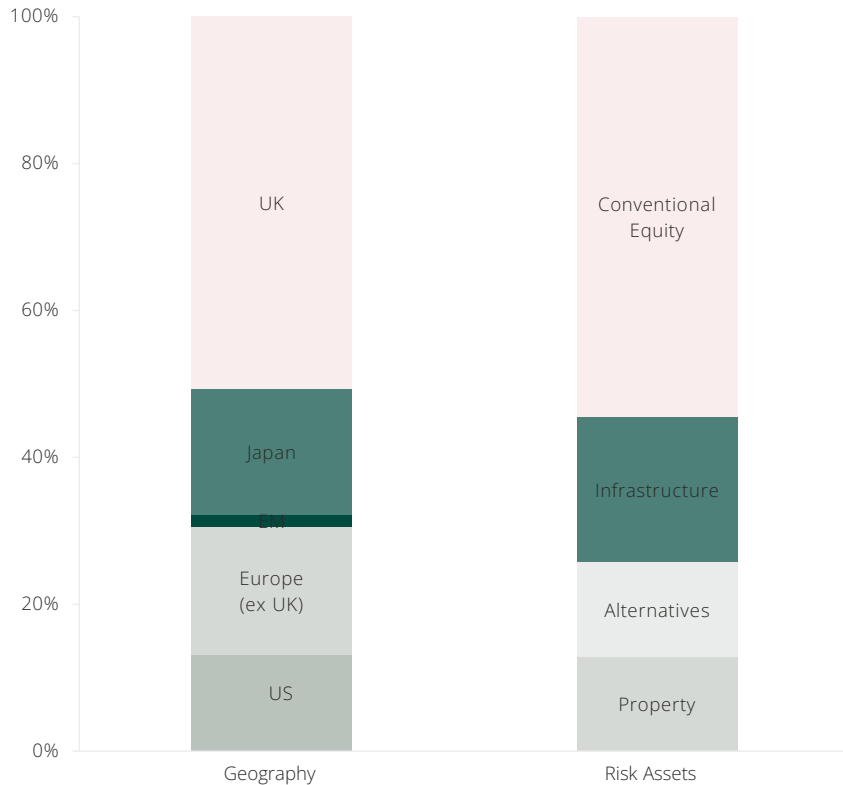


NAV performance gross of fees  
Source: CGAM, Bloomberg Finance L.P., Northern Trust

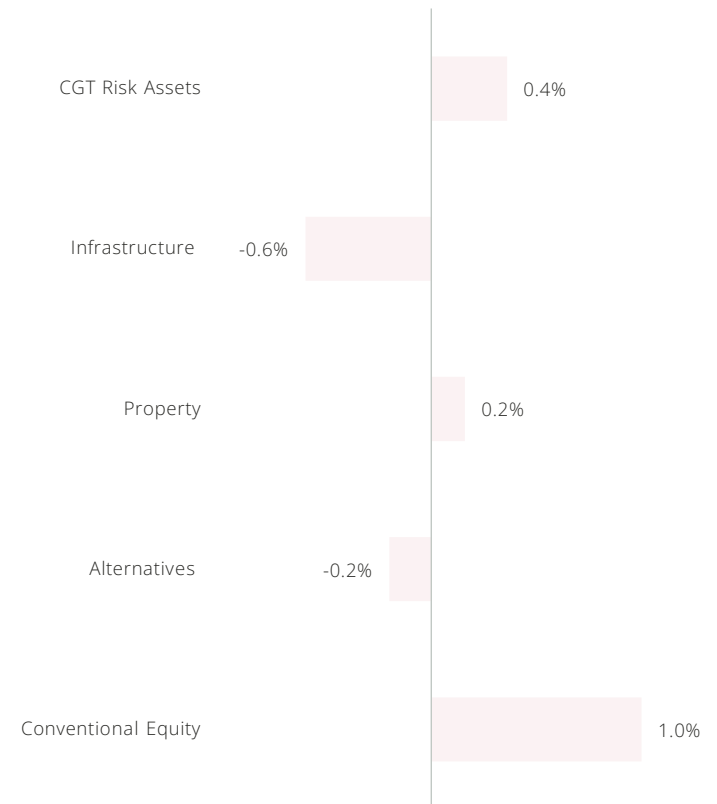


# Infrastructure assets have faced headwinds in the last year

CGT Risk Assets – Geographic Exposure and Asset Exposure



Contribution by Risk Assets LTM December 2023



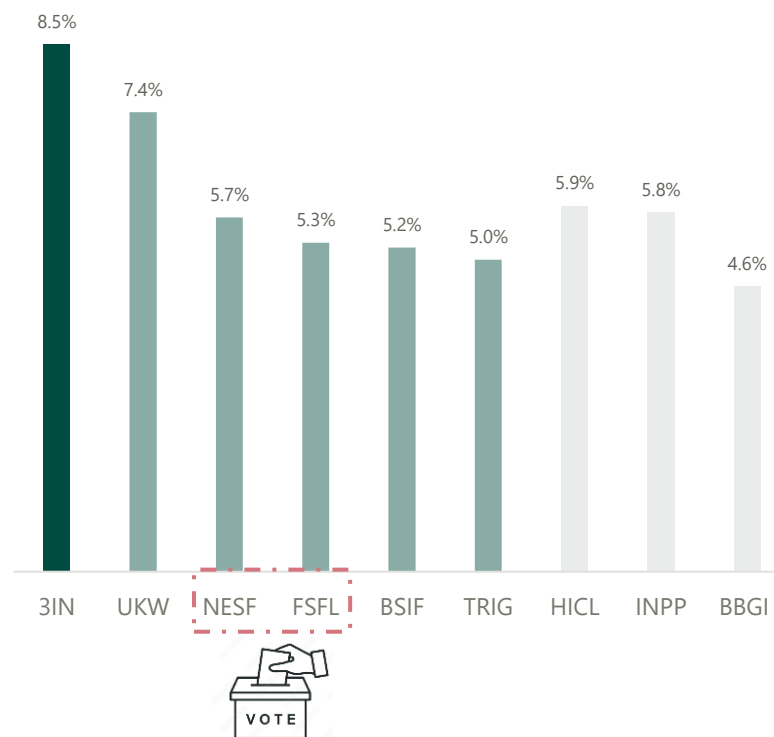
NAV performance gross of fees  
 Alternatives include: Loan Funds, HY, PE & Hedge Funds  
 Source: CGAM, Bloomberg Finance L.P., Northern Trust

# ...but discounts are attractive, with more opportunities for active engagement

Investment Companies Premium (+) / Discount (-) %



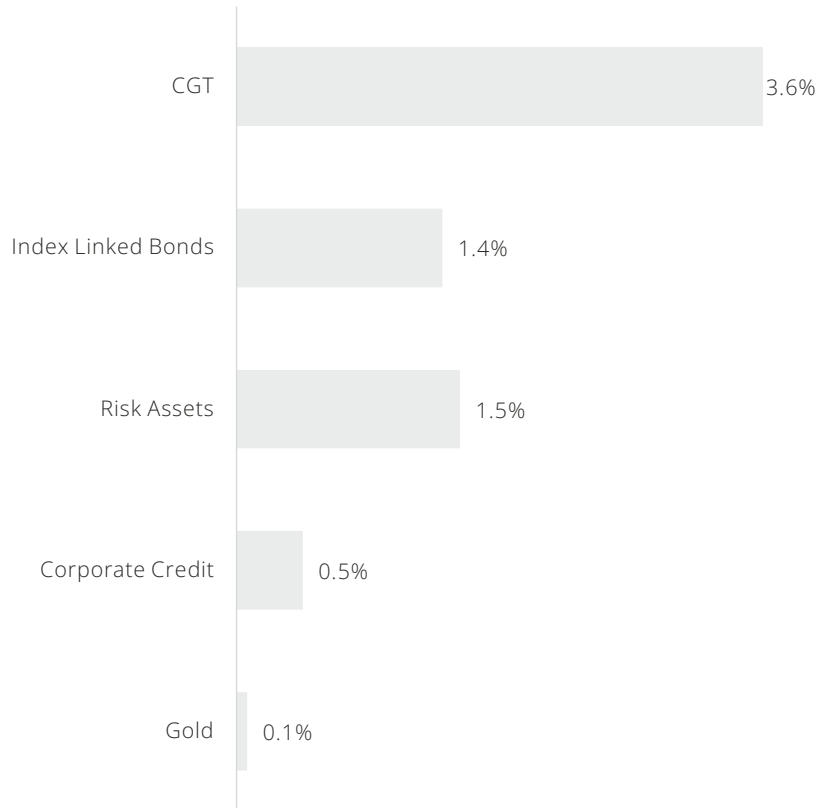
Infrastructure – Implied net real returns<sup>1</sup>



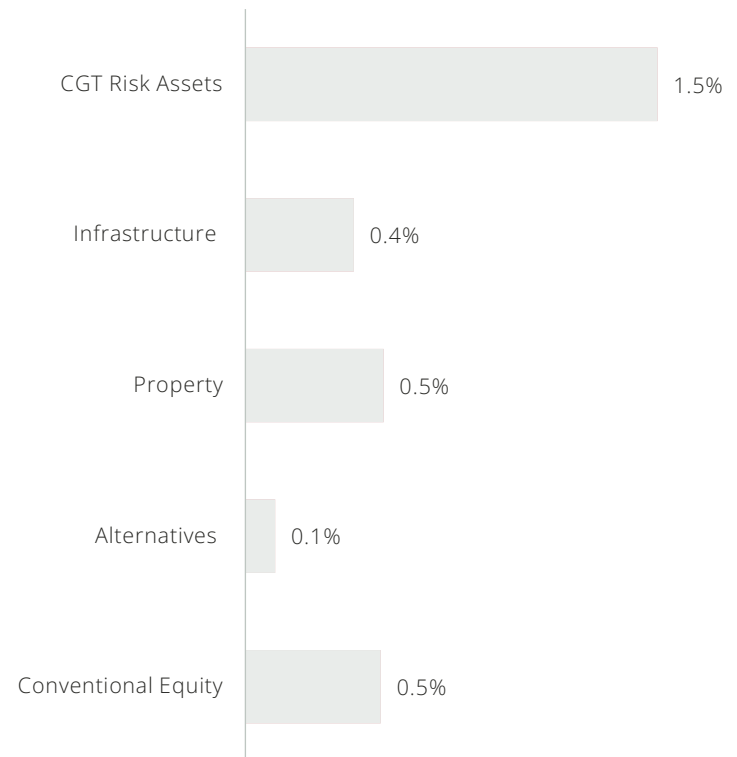
<sup>1</sup>Returns are schematic, net of fees and at recent prices. Returns are based on sensitivities from company and CGAM estimates of inflation and quality of earning. Any decline in power prices is through the model, ignores convexity and assumes a constant distribution of subsidised to merchant cashflows

# It was a strong fourth quarter for equity and fixed income

Contribution by Asset Class – 4Q23



Contribution by Risk Asset Class – 4Q23



NAV performance gross of fees  
Source: CGAM, Bloomberg Finance L.P., Northern Trust

# Both equity and bond portfolios have contributed to outperformance

CGT Risk Assets Returns Performance to December 2023<sup>1</sup>



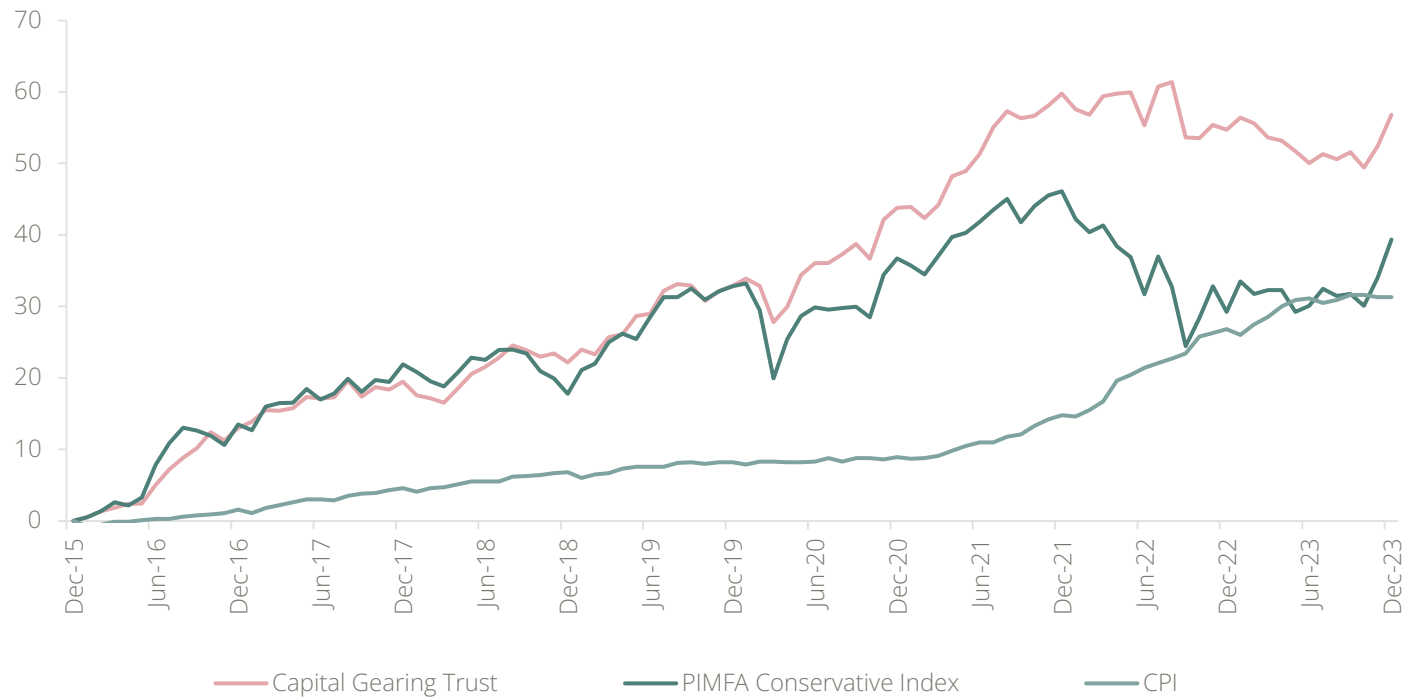
CGT Bonds Only Returns Performance to December 2023<sup>1</sup>



<sup>1</sup>Risk Assets include equities, property, alternatives and gold. Bonds include credit and sovereign bonds (excluding T-Bills and cash), start period reflects the longest period available for CGT under Bloomberg AIM  
Source: Bloomberg Finance L.P., Northern Trust

# CGT has outperformed comparators on an absolute and risk adjusted basis

## CGT vs. Comparators: Total Returns to December 2023<sup>1,2</sup>

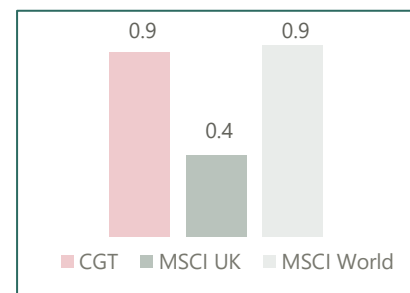
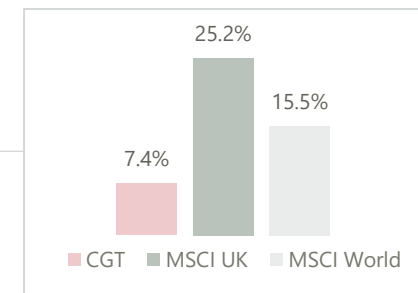
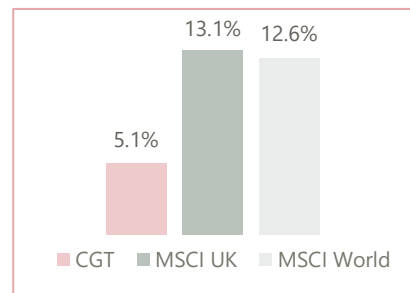
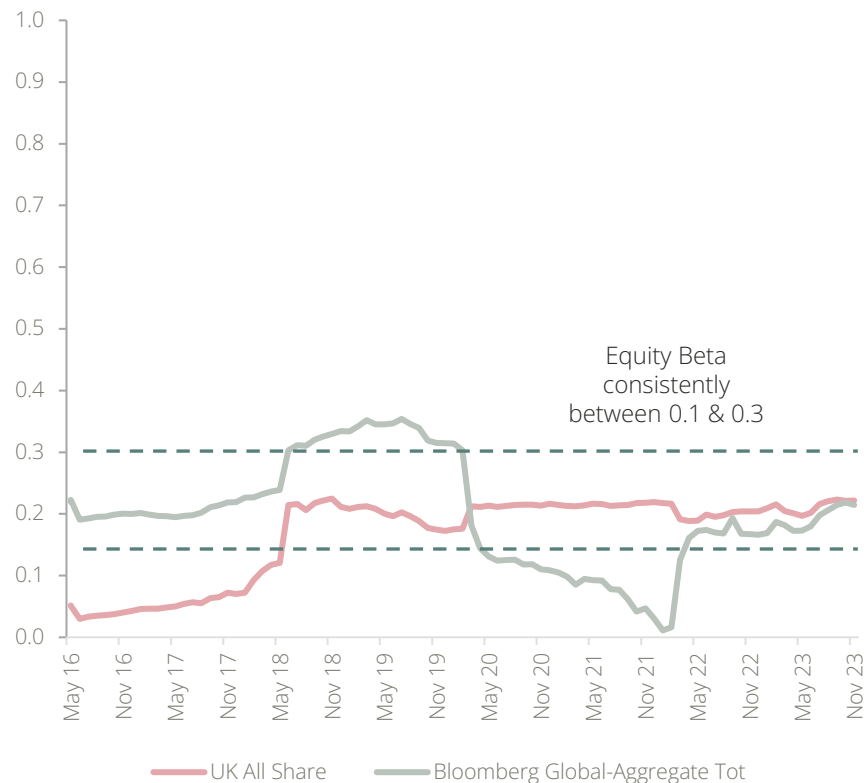


1. The MSCI PIMFA (Private Investor Conservative Index) aims to represent the investment strategy of a UK private client adopting a conservative approach to their investment  
2. For comparability to the next slide, the start period reflects the longest period available for CGT under which a Risk Asset and Bond attribution can be extracted from Bloomberg AIM

*Positioning and Returns*

# Returns have come with low volatility, and low correlation to equity & bond markets, and excellent risk adjusted performance

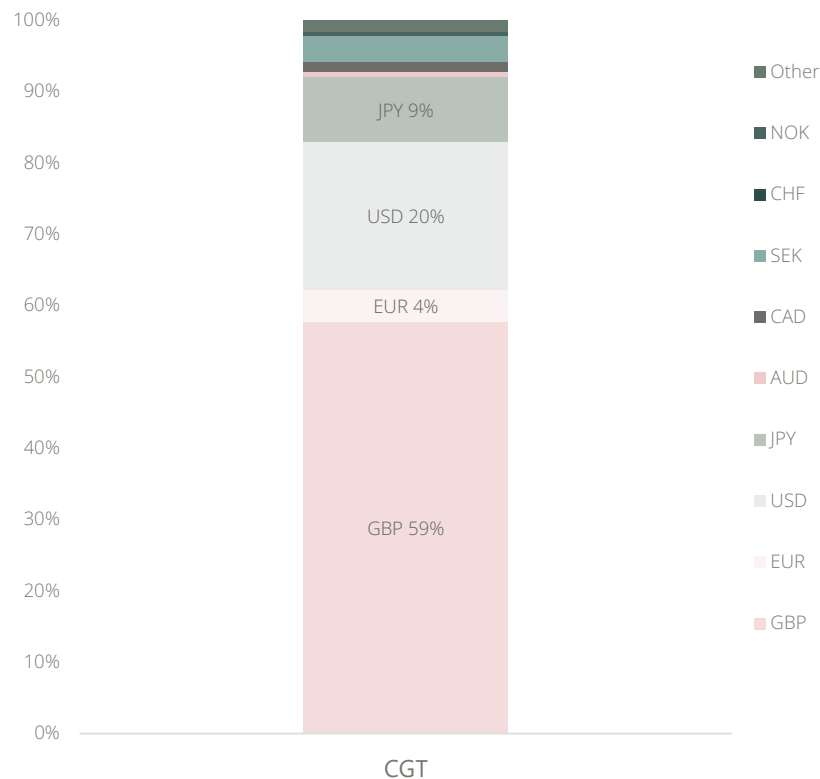
## Sharpe Ratio & Volatility (%) vs. Major Indices



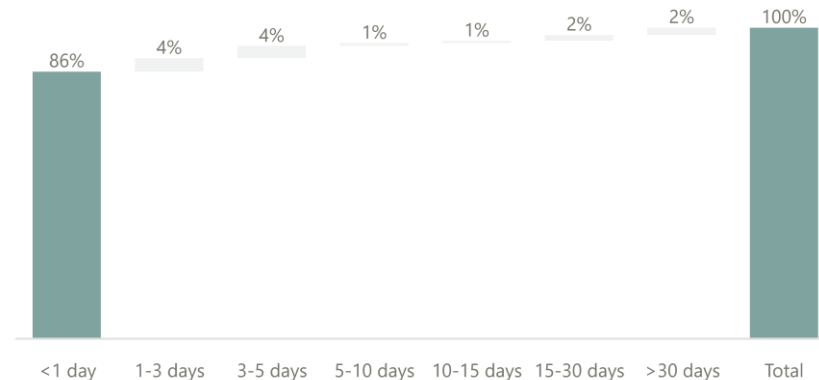
For comparability, the start period is taken from inception of the CG Absolute Return Fund.  
Source: Bloomberg Finance L.P, risk statistics per Bloomberg standard definitions.

# Duration, currency and liquidity are actively managed

## Currency Exposure<sup>1</sup>



## Time to Liquidation (days)<sup>2</sup>



## Duration and Yield<sup>3</sup>

	Weight	Duration (Yrs)	Yield (%)	Rating <sup>4</sup>
Cash & T-bills	9%	0.2	3.2	AA-
I/L Bonds	50%	6.3	3.7 / 1.3	AAA
Corp. Bonds	13%	2.4	6.5	BBB+
Risk Assets (HY)	2%	2.0	10.3	B+
Risk Assets (Other)	26%	n.a	5.1	n.a.
<b>CGT</b>	<b>100%</b>	<b>4.8</b>	<b>4.2</b>	<b>A-</b>

1. Currency exposure is estimated using CGAM analysis of Bloomberg, Numis and Company data

2. Assumes 25% average daily volume participation rate

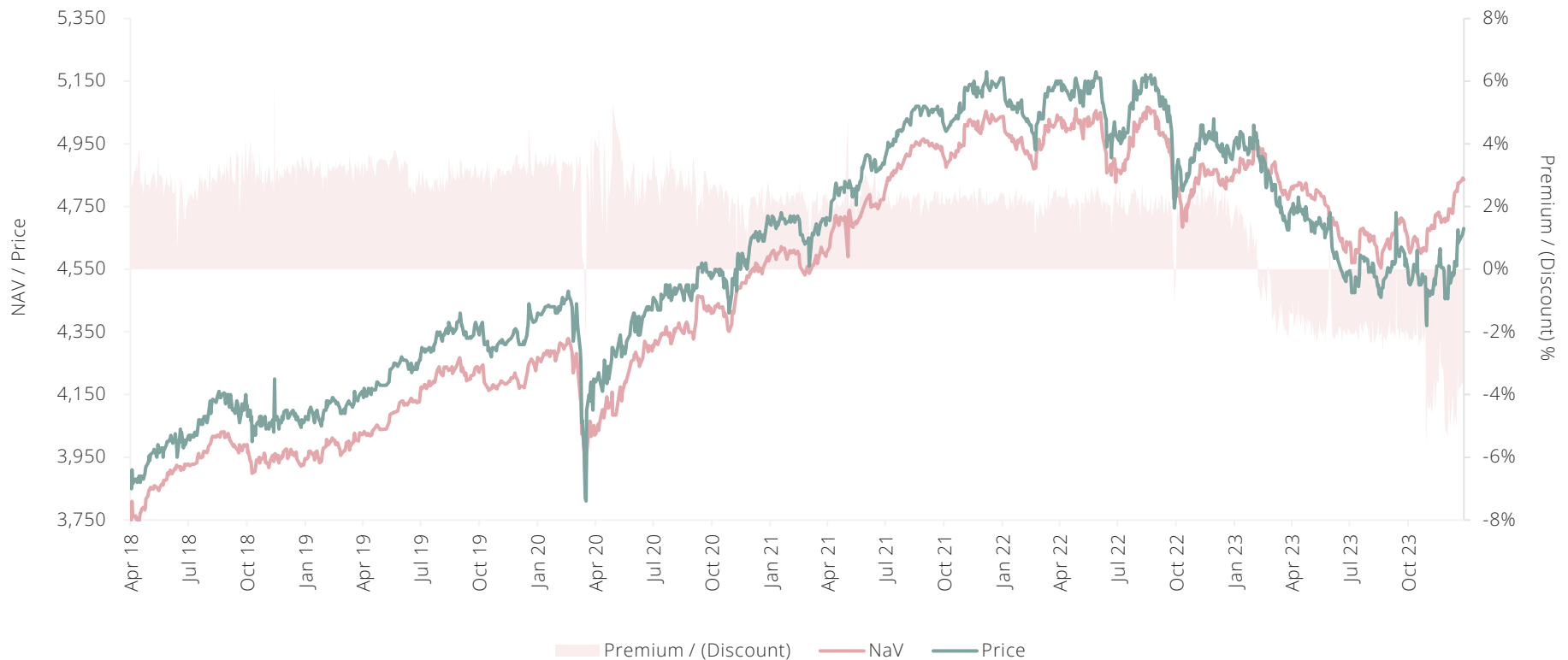
3. Duration refers to Option Adjusted Duration, Yield refers to yield to maturity for fixed income with real yield also shown for index linked and dividend yield for other risk assets which excludes high yield bonds

4. Bloomberg composite rating, Moody's weighted average rating for Cash & T-Bills

## Positioning and Returns

# The Company remains absolutely committed to its discount control policy which should revert to normal operation very soon

### CGT – Share Price, NAV and Discount Control to December 2023





## Top Equity and Bond Holdings

### Top 10 Equity Holdings

Asset	Weight
ISHARES MSCI JAPAN ESG SCREENED	3.5%
SPDR MSCI EUROPE ENERGY UCITS ETF	2.5%
LYXOR STOXX 600 BASIC RESOURCES	1.6%
NORTH ATLANTIC SMALL CO'S	1.5%
GREENCOAT UK WIND	1.4%
WISDOMTREE PHYSICAL SWISS GOLD	1.0%
INT'L PUBLIC PARTNERSHIP	0.7%
GRAINGER	0.7%
HICL INFRASTRUCTURE	0.6%
GCP INFRASTRUCTURE INVESTMENTS	0.6%
	14.0%

### Top 10 Bond Holdings

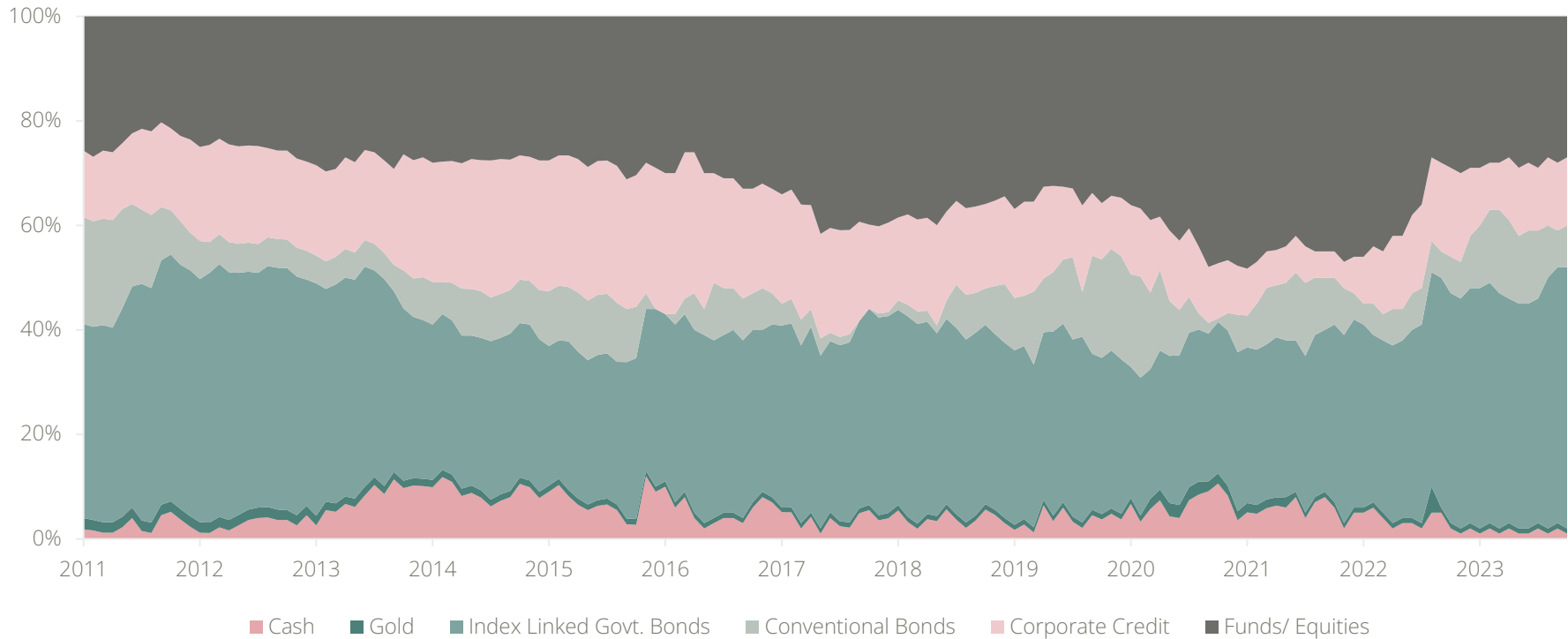
Asset	Weight
UK I/L 0.125% 22/03/29	7.9%
UK I/L 0.125% 10/08/28	7.0%
UK I/L 0.125% 22/03/24	6.7%
UK I/L 0.125% 22/03/26	4.1%
US I/L 0.625% 15/02/43	2.9%
US I/L 0.75% 15/02/45	1.7%
SWEDEN I/L 0.125% 01/06/26	1.5%
UK I/L 0.625% 22/11/42	1.4%
JP I/L 0.10% 10/03/29	1.3%
JTDB 0.00% 18/03/24	1.2%
	35.9%

Source: CGAM, Northern Trust.

## Positioning and Returns

# Changes to asset allocation tend to be modest over the short term but can be fundamental over the long term

### CGT Asset Allocation – 2011 to 2023



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

## Current Focus Areas

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### Real Interest Rates

Developed market issuers offering risk free inflation beating returns

US TIPS are offering attractive real yields

UK index linked are offering a particular opportunity post-December meltdown



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### Japanese Equities

The Yen is offering exceptional value, making Japanese corporates highly competitive and driving strong earnings growth



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### Investment Trusts

Average discounts have widened to levels last seen since the financial crisis and there is scope for active engagement with boards



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### Infrastructure

Defensively positioned infrastructure assets with inflation linked cashflows are offering attractive real returns

# *Capital Gearing Trust*

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*Approach to Responsible Investing*

**cgam**

# 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 blanket disinvestment.

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## Targeted

As a small firm we must focus our efforts where they will have 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 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 bad outcomes.

# ESG integration by asset class

## 1. 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.

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

## 2. Direct Corporate Credit and Preference Shares

The funds hold small quantities of direct credit and preference share holdings issues by corporate issuers. Given our small participation in the market and therefore limited influence, our primary approach is to exclude corporate issuers who are primarily engaged in the following activities:

Exclusion Area	Exclusion sub-Area	Threshold
Controversial weapons	Anti-personnel mines, cluster munitions, chemical weapons	0%
Tobacco	Manufacture or marketing	<5%
Thermal Coal	Coal mining or coal-based energy production	<5%
Oil sands or arctic drilling	Production	<5%
Gambling	Services	<5%
Adult entertainment	Production or broadcasting	<5%
Firearms	Manufacture	<5%
Predatory lending	Services	<5%

## ESG integration by asset class

### 3. Listed Closed-Ended Funds, Investment Trust, REITs and Property Companies

CGAM has a long history of active engagement in the London market for listed closed ended funds and other collective investment companies including REITs. In this priority area for engagement we seek to achieve positive transition so do not employ systematic exclusions.

Listed investment companies are fundamentally different to operating companies and typically have the following features:

- They hold a broad portfolio of securities on behalf of their shareholders;
- External investment managers rather than executive management teams;
- No employees or customers; and
- Have a board of directors to represent shareholder interests and concerns.

Given the prominent role that directors play in investment companies CGAM frequently undertakes activities that aim to influence boards and ultimately improve governance. The techniques employed vary based on the specific scenario but include those listed here (see box).

As well as engagement in the sector, CGAM places particular weight on providing primary capital to high impact investment companies with an environmental or social focus. In our assessment by providing primary capital, via IPO sponsorship or follow on fund raisings, investors have a greater impact than by simply trading securities in the secondary market.

Activist Engagement Technique	Frequency of Employment
Management Engagement	Continuous
Board Engagement	Continuous
Shareholder co-ordination	Frequent
Voting against significant resolutions	Frequent
Raising ESG matters in fund reporting	Frequent
Amplification through press engagement	Periodic
Replacing directors to improve governance	Periodic
Publishing open letters	Periodic
Publishing research incorporating ESG views	Periodic
Threatening to requisitioning meetings	Periodic

### 4. Exchange Traded Funds ('ETFs')

Funds advised by CGAM hold relatively small quantities of exchange traded funds. ETFs are listed collective funds which typically track an index and provide low cost, efficient access to a broad portfolios of securities. CGAM does engage directly with our approved panel of ETF providers to encourage improved stewardship standards. However our capacity for effective engagement is limited, we therefore consider exclusions where there are suitable ETFs available. Typically this is via ESG screened ETFs which is a dynamic and growing sector. The programme of identifying and conducting due diligence on these products is ongoing.

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