

# Capital Preservation Portfolio Service

# GBIM

— GORE BROWNE —  
INVESTMENT MANAGEMENT

## QUARTERLY FACTSHEET

data as at 30 September 2022

### Portfolio Objective

To seek to preserve capital over the medium to long term whatever the economic environment with total return above the level of cash with a low volatility of returns.

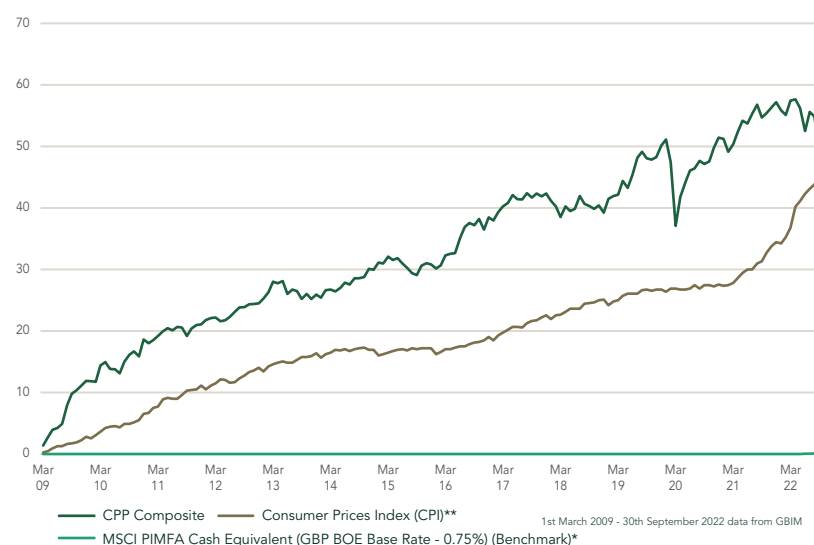
### Manager Commentary

The Capital Preservation Portfolio (CPP) strategy suffered a second consecutive small quarterly loss (-2.34%) to end of September 2022, in what proved to be another challenging period. Macro strategies served their purpose and produced positive returns in what was a highly volatile environment but everything else bar gold suffered against the background of high inflation. Asset classes became positively correlated as interest rates were raised to beat inflation, and this undermined to some degree our well-tested diversification strategy. Even social infrastructure which has historically provided neutral or negative correlation to traditional asset classes was hit. Despite the strong inflation linkage of its cash flows, the sharp increase in long gilt yields following the 23 September 'mini-budget' challenged the discount rates these companies use to produce a net present value on which the share price is based.

Inflation continues to dominate markets globally. While US inflation feels like it's getting closer to peaking, markets will need to see several more CPI data points showing a convincing decline to avoid false dawns, such as that which supported a growth equities market rally in July. Achieving that will take more big interest rate hikes in the US, and still more in the UK where a 'peak' base rate of 6% is being mooted.

While there's no doubt that a bumpy road lies ahead, it's important to separate the macro from the market, remembering that investors anticipate outcomes by as much as 18 months, despite the bad news that may be yet to come. For example, central bank interest rate overshoot could cause a recession next year though the current strong employment data in developed markets suggest that this would be mild. But for the first time in well over 10 years, following a torrid period for conventional bonds as interest rates have risen to combat inflation, we are starting to see value emerging for this asset class. We favour traditional investment grade corporate bonds and have as a result started to extend the fixed income core of the portfolio by increasing duration. UK government bonds also look interesting, but we are waiting to see if the Bank of England can maintain its independence from the government's apparent preference for fiscal dominance. A recent reversal in its Quantitative Tightening policy can be justified as well as its market stability goal and meeting its deadline for ending pension fund support also bodes well.

### Representative Performance Since Inception (%)



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	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs	Launch
CPP Composite	-2.34	-5.39	-3.73	0.58	5.13	48.95
CPI**	1.64	5.72	10.14	14.10	18.93	44.63
Benchmark*	0.22	0.26	0.26	0.26	0.26	0.26

### Investment Managers



**Tom Hewitt** Director

Tom joined in 2017. Previously he spent 14 years at Lloyds Bank, working in corporate lending and structured finance. Tom is a Chartered Fellow of the CISI.



**John MacMahon** Investment Director

John is a co-founder of Gore Browne Investment Management. He initiated the Capital Preservation Portfolio (CPP) strategy during the turmoil of the Global Financial Crisis of 2007-09.

### Key Details

Benchmark	<b>MSCI PIMFA Cash Equivalent*</b>
Inception	<b>1st March 2009</b>
TER	<b>2.0%</b>
Holdings	<b>c 20</b>
Estimated Yield	<b>2.50%</b>

Note that each client's portfolio is treated separately. Whilst stocks held are likely to be similar across client portfolios, weightings or levels of cash held within each account will vary. Data provided in this factsheet is based on a composite sample of Capital Preservation Portfolios (CPP Composite) which includes portfolios which were managed from the outset of this strategy and are still run today, with performance data shown net of all fees and charges.

### Portfolio Benefits

- ✓ Lower volatility of returns than 'traditional' growth or balanced portfolios means that lower-risk investors can receive a modest but stable return while maintaining capital over the medium term.
- ✓ With interest rates on cash so low at present, the portfolio can provide an alternative for 'earmarked' cash to investors who are willing to take a limited amount of risk to get a better return until the time the money is needed is closer.
- ✓ A current team member has been managing the strategy since inception in 2009.

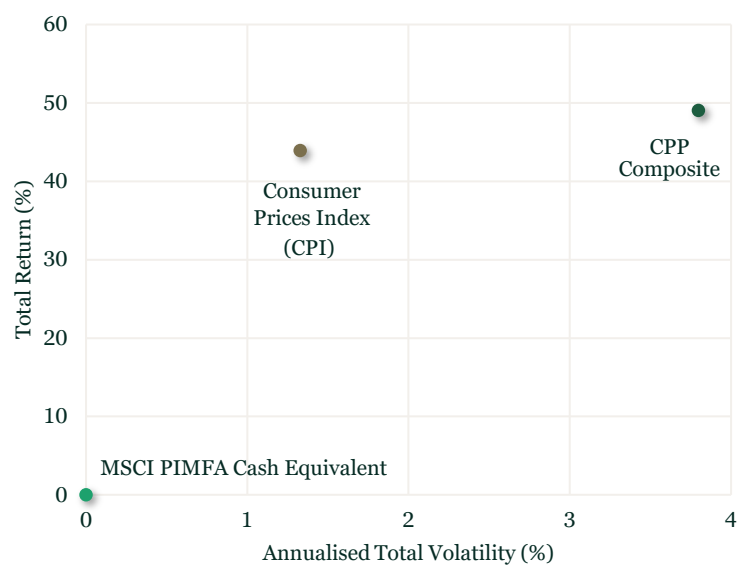
### Key Risks

- ⊖ CPP strategy is not an outright alternative to cash in your current account as even in lower-risk portfolios, time is needed. Investors' capital is at risk and they may not get back the full amount that they invest.
- ⊖ Liquidity is lower than a bank as portfolios can normally be liquidated with two weeks.
- ⊖ When equity markets are rising strongly, the CPP strategy is very unlikely to keep up.
- ⊖ CPP strategy may not be a reliable source of income as the goal is total return (capital gain/loss plus income).

### Contact Us

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## Representative Return vs Volatility Since Inception



Data from GBIM

### Representative Performance Analytics Since Inception

	CPP Composite
Annualised total return	2.98%
Annualised monthly volatility	3.87%
Sharpe ratio	0.67
Risk-free rate	0.39%
Maximum drawdown (Feb-Mar '20)	-9.30%
Ratio of up to down months	1.76
Best month (Apr '20)	3.44%
Worst month (Mar '20)	-7.03%

Data from GBIM

## Glossary

**Annualised Monthly Volatility:** A measure of how variable returns for a portfolio, fund or comparative market index have been around their historical average (also known as "standard deviation"). Two portfolios may produce the same return over a period. The fund whose monthly returns have varied less will have a lower annualised volatility and will be considered to have achieved its returns with less risk. The calculation is the standard deviation of a given number of monthly returns presented as an annualised number.

**Asset Allocation:** An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an investor's goals, attitude to risk and investment time horizon.

**Benchmark:** A benchmark is, in investment terms, a standard against which the performance of a security, investment portfolio or fund can be measured. It usually involves using accepted market indices to build a composite, weighted appropriately for the investment objective and attitude to risk of the portfolio or fund whose performance it is measuring. The MSCI PIMFA Private Investor Index Series is extensively used as benchmarks for GBIM clients. The MSCI Cash Equivalent benchmark which is used for the CPP strategy is defined by the formula Bank of England Base Rate - 0.75%, with a floor of 0.00%.

**Best / Worst Month:** The month in which the total return of the CPP strategy was the highest or lowest of any month from inception to date.

**Correlation:** A statistic that measures the degree to which the prices of two securities move in relation to each other. Correlations are used to produce the correlation coefficient, which has a value that must fall within -1.0 and +1.0. Diversification is used to manage the risk of the CPP, and adding an asset with a neutral (around 0) or negative correlation to the overall portfolio should increase the diversification value, thereby lowering risk and potentially enhancing the return.

**Maximum Drawdown:** The maximum loss from a month-end peak to a month-end trough of a portfolio. Maximum drawdown is an indicator of downside risk over a specified time period.

**Liquidity:** In the investment context, how quickly can assets held in the portfolio be turned into cash.

**Ratio of Up Months to Down Months:** The number of months in which the total return of the CPP strategy rose divided by the number of months in which the total return of the portfolio fell. For example, if in a given year, the total return of the CPP strategy rose in seven months and fell in five months, the ratio of up months to down months would be 1.4.

**Risk-free Rate:** The risk-free rate is the theoretical rate of return of an investment with zero risk. The Risk-free rate is used in calculating the Sharpe ratio (q.v.). The Risk-Free rate used in calculating the Sharpe ratio in this Factsheet is the 1 Month UK Treasury Bill Total Return.

**Sharpe Ratio:** A measure of a fund's risk adjusted performance, taking into account the return on a risk-free investment. The ratio allows an investor to assess whether the fund is generating adequate returns for the level of risk it is taking. The higher the ratio, the better the risk-adjusted performance has been. If the ratio is negative, the fund has returned less than the risk-free rate. The ratio is calculated by subtracting the risk-free return (such as cash) in the relevant currency from the fund's return, then dividing the result by the fund's volatility. It is calculated using annualised numbers.

**Total Return:** The actual rate of return of an investment or a portfolio of investments over a given evaluation period. Total return includes interest, dividends, fees received and other distributions, as well as the capital gain or loss on the investment.

**Volatility:** A risk indicator demonstrating the fluctuation range (for example of the price or return of a security or fund unit) over a defined period. Volatility is most often calculated using standard deviation. The higher the volatility the greater the fluctuation range.

## IMPORTANT INFORMATION

\*Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by, the Wealth Management Association. The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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