Capital Preservation Portfolio Service

GBIM
GORE BROWNE INVESTMENT MANAGEMENT

QUARTERLY FACTSHEET
data as at 31 December 2022 (**CPI data as at 30 November 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 fourth quarter of 2022 was another volatile period with markets recovering well in October and November, only to slip away again in December. The GBIM Capital Preservation composite produced a total return of +0.91% in the fourth quarter as fixed income assets recovered from the chaos brought on by the Kwarteng budget in the UK. Infrastructure and multi-asset funds also did well.

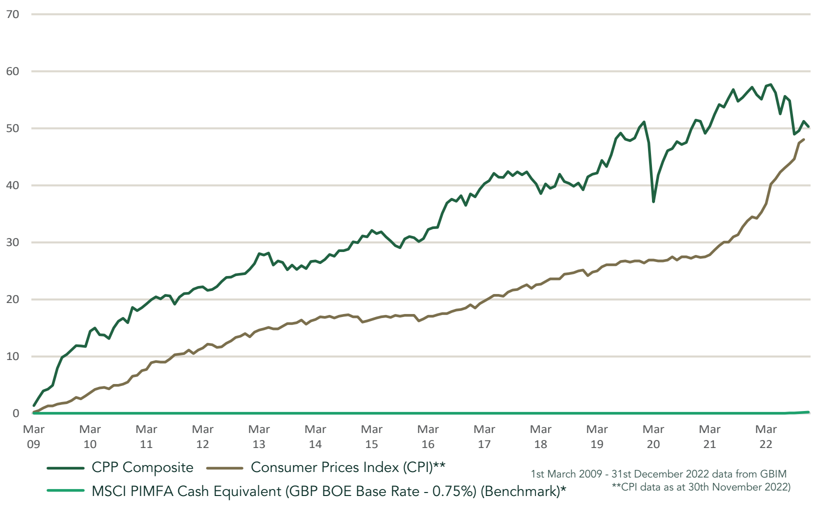
This pattern reflected the whole of 2022 when volatility was high throughout. In the first couple of months of the year, inflation started to rise more sharply, catching out those central banks who believed it would be 'transitory'. This was quickly followed by the appalling Russian invasion of Ukraine which caused energy and food prices to spike, and further supply constraints in manufactured goods because of China's zero Covid policy. Central banks reacted quickly to the inflation threat and pushed up interest rates hugely from the ultra-low levels seen since 2009 to more normal levels. This caused virtually all markets to fall sharply, and simultaneously. Government and corporate bonds experienced one of their worst years since the 1970s falling by a fifth. Equities, represented by the US S&P 500, also fell by a similar amount, and the technology index Nasdaq fell by 30% year on year. Only the UK FTSE100 was positive, mainly due to the sharp fall in GBP which flattered the high level of overseas earnings in that index.

Against this highly unusual background, the GBIM Capital Preservation composite turned in a loss for the full year 2022 of -4.4%. While we don't like seeing any losses in these portfolios, performance was better than expected given that over a third of the portfolio was in bonds (though mainly short duration). By way of comparison, UK Gilts were down over -23% on the year, and the ARC Cautious 0-40%, a UK lower risk index, posted the biggest loss in its 20 year history at -7.4%. The massive repricing of assets in 2022 produced some interesting opportunities, particularly in the areas which took the biggest beating. So, towards the end of the quarter, we lengthened the duration of the corporate bond exposure by switching within Fidelity the Strategic Bond Fund for the Sustainable Moneybuilder Bond Fund; and taking a new position in the Artemis Corporate Bond Fund (selling the Janus Henderson UK Absolute Return Fund to fund this).

Turning to the outlook for 2023, of the three big IIIs of 2022, Invasion, Inflation, and Interest rates, only the first seems intractable, and we are not expecting much change in 2023. While inflation is still high, we expect it to fall during 2023 (though not as far as the 2% consensus target) as central banks' interest rate hikes start to bite, and the very high spring 2022 inflation data points drop out of the CPI basket calculations. This view is contingent on no 'wage-push' inflation becoming entrenched. Interest rates are harder to read but while we think we are close to the peak in most markets, current market expectations that rates will begin to fall as early as summer 2023 are too optimistic in our view. Central banks having got it wrong once are unlikely to risk doing so again, even if that increases the possibility of recession.

Taking a broader view, it is hard to underestimate the scale of the changes which 2022 brought to investment markets. Certainly, the easy-money policies which have prevailed since the Global Financial Crisis of 2007-09 have disappeared, causing discomfort for over-leveraged borrowers. Taking the very long view, the falling interest rate environment which began in the early 1980s may also have come to an end in 2022. It all happened so quickly that it will take some more time to tell, and, if so, what it will be replaced by.

Representative Performance Since Inception (%)



Representative Performance Since Inception (%)

	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs	Launch
CPP Composite	**0.91**	**-1.45**	**-4.40**	**0.08**	**5.58**	**50.30**
CPI**	2.92	4.88	10.66	16.78	21.13	48.02
Benchmark*	0.51	0.73	0.78	0.78	0.26	0.78

Investment Managers

Tom Hewitt Snr Investment Manager

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 Snr Investment Manager

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	**MSCI PIMFA Cash Equivalent***
Inception	**1st March 2009**
TER	**2.0%**
Holdings	**c 20**
Estimated Yield	**2.70%**

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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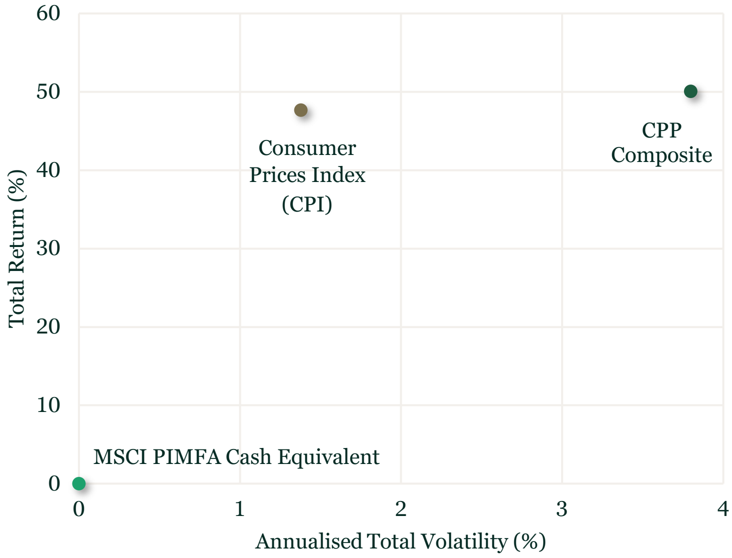
Representative Return vs Volatility Since Inception



Data from GBIM

Representative Performance Analytics Since Inception

	CPP Composite
Annualised total return	2.99%
Annualised monthly volatility	3.85%
Sharpe ratio	0.66
Risk-free rate	0.43%
Maximum drawdown (Feb-Mar '20)	-9.30%
Ratio of up to down months	1.77
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.