

# Capital Preservation Portfolio Service

# GBIM

— GORE BROWNE —  
INVESTMENT MANAGEMENT

## QUARTERLY FACTSHEET

data as at 31 March 2021 (CPI data as at 28 February 2021)

### 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

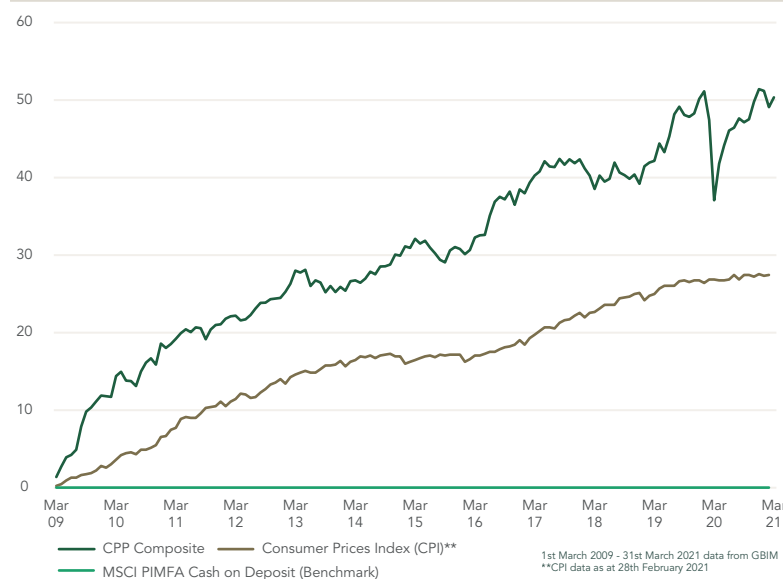
After a busy fourth quarter of 2020, the first quarter of 2021 saw only one change to the portfolio. UK property lender ICG Longbow was sold as the company began a process of orderly realisation. Its main appeal was its high yield, as, while the CP strategy should not be viewed as a reliable source of income, yield is nonetheless an important contributor to total return. Proceeds were reinvested in the Liontrust High Yield Bond Fund run by a team known and respected for many years. As well as a good yield, the fund has relatively short duration (less than 4 years) so should be less exposed to the selloff in government bond markets we have seen recently.

During this challenging quarter for fixed income, the CP strategy had limited exposure to government bonds, mostly through the M&G Global Macro Bond Fund which compounded its exposure to rates by also having a large exposure to the USD which was hit by inflation fears. We hold this fund for protection against a major turn in sentiment, arising for example from a new variant of the Covid 19 virus taking hold. One of the strategy's larger holdings, Allianz Strategic Bond Fund, however had exposure to long-term Australian government bonds which were among the worst-hit developed world rates markets. The managers also made relative value calls on EM local-currency debt, European peripherals and UK inflation which impacted negatively on performance. This fund had an excellent 2020, however, so we see this for now as an element of give-back.

Inflation fears affect almost all investments, and 1Q21 saw these pick up substantially. The disinflationary effect on prices caused by the lockdowns of 2020 will drop out of the indexation basket from 2Q21 to be replaced by substantial price increases as lockdowns end and recovery gets underway. The huge change in the price of oil illustrates this well. As a result, inflation will spike upwards in the next few months, with May likely to be the peak. When the data normalises, this technical spike should reverse. However, if the huge fiscal stimulus proposed by the Biden administration also creates price pressures in goods, services and labour, it could coincide to produce an inflationary spiral. Although we think this is unlikely to happen, it is something we are watching closely, and already have meaningful inflation hedges in place.

Finally, we took the Capital Preservation strategies (both standard and Enhanced) for a periodic visit to our third-party risk assessor, Natixis Investment Management Solutions, who conducted a series of risk decomposition and diversification analyses on the current asset allocation. Their report runs to over 40 pages but suffice it to say we were pleased with the results covering inter alia the Risk/Return profile, the Portfolio Holdings Correlations and Drawdowns.

### Representative Performance Since Inception (%)



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	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs	Launch
CPP Composite	-0.70	2.18	9.68	8.54	13.67	50.36
CPI	0.18	0.46	0.46	4.00	9.32	27.45
Benchmark	0.00	0.00	0.00	0.00	0.00	0.00

### 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 Member 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 on Deposit*</b>
Inception	<b>1<sup>st</sup> March 2009</b>
TER	<b>2.0%</b>
Holdings	<b>c 20</b>
Estimated Yield	<b>1.80%</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 and for the foreseeable future, 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.

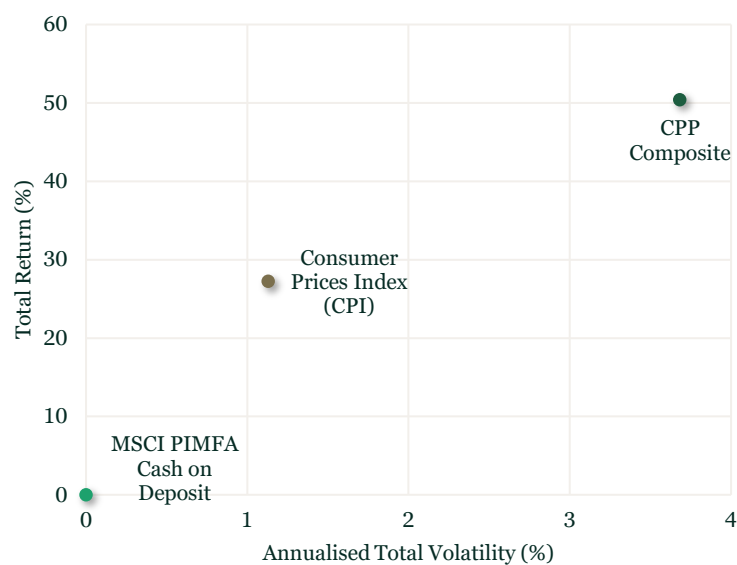
### Key Risks

- ⊗ 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	3.43%
Annualised monthly volatility	3.70%
Sharpe ratio	0.90
Risk-free rate	0.38%
Maximum drawdown (Feb-Mar '20)	-9.30%
Ratio of up to down months	1.84
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 Bank of England Base Rate.

**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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