WISE FUNDS

TB Wise Multi-Asset Income 2021 Interim Investment Review

September 2021

Market Background

Covid-19 continued to dominate the investment narrative over the six-month period under review. Whereas the previous period reflected widespread relief that the development of successful vaccines offered a way out of the nightmare of lockdowns and social distancing, investor attitudes were more nuanced during the period as it became apparent vaccines would allow us to live with the virus rather than eradicating it totally. On the one hand there was rising confidence in the outlook for global economic growth. Global GDP forecasts have continued to rise over the period, predominantly for developed world economies. On the other hand, more recently optimistic forecasts have been somewhat tempered as labour shortages, wage inflation, supply chain disruption, commodity price inflation and the emergence of the Delta variant of the virus all served to moderate the most optimistic forecasts.

There have been many positives that have emerged over the period with regards our ability to cope with the virus. The widespread process of inoculation in the developed world has been more successful that could have been hoped at the start of the year. Vaccination rates in the UK have led the way globally and it is very encouraging that the EU has now caught up following a slow start. However, the roll-out of vaccines across the world has not been uniformly positive. Vaccination rates in the US have stalled and the Delta variant is not yet under control and therefore remains a risk to the consensual view that global economic growth remains strong into next year. Japan was slow to roll-out vaccines due its lengthy clinical testing and approval process as well as supply shortages, however, more recently it has made good progress with over 50% of the population now fully vaccinated. Emerging markets too remain exposed to the virus as it looks like it will not be until 2022 before these economies will have made significant vaccination progress. With only just over 30% of the global population fully vaccinated, the risk of viral mutation remains. Similarly, it has become apparent that vaccination effectiveness wanes over time and regular top-up vaccines for the most vulnerable are likely. This puts further pressure on the global supply of vaccines and will increase debate over the issue of vaccine nationalism. The effectiveness of and necessity for the vaccine programme was highlighted by the emergence of the contagious Delta variant. Through the summer months most countries experienced a third wave of the virus, however, in countries with high vaccine penetration, infection rates stabilised more quickly than feared, indicating vaccines both reduce transmission rates and, most importantly, prevent a rise in medical complications that could overburden health systems and necessitate the reintroduction of lockdown restrictions.

The main market reaction to these developments has been to see broad strength in global equity markets. Equity markets in the US, Europe and the UK all enjoyed strong double-digit returns over the period. The Chinese and Japanese markets were notable laggards as investors responded to increased fears over the impact of government regulation in the former and the combination of sharply rising Covid cases, lockdowns and low vaccination rates in the latter. Private equity valuations have seen similar strong recovery, albeit somewhat lagged given the inherent delay in their reporting cycle. Government bond markets started the period weakly as increasing confidence in the cyclical recovery drove investors away from this more defensive asset-class, as did increasing expectations over the outlook for inflation. At the end of March, the US 10-year bond yield, perhaps the best barometer of investor confidence in the economic outlook, rose to 1.8%, a level not seen since before initial lockdown restrictions were imposed.

It is unsurprising that the reopening of the global economy has led to the highest level of inflation since the Global Financial Crisis as global supply chains have struggled to keep pace with the very strong recovery in demand. Unemployment rates have surprised on the downside and wage inflation has been a significant factor driving inflation higher. It is unclear the extent to which tightness in the labour market is distorted by governmental furlough schemes meaning pressure will ease once they are unwound or whether it proves more structural. Inflation expectations were further buoyed at the start of the period by announcements of increased fiscal spending, particularly the US where a $1.9trillion US stimulus package was agreed and a further $2.3trillion tax-funded infrastructure programme was announced. In the UK, these factors were further compounded by latent Brexit related factors, such as the reduction in migrant workers and increased trade friction.

Markets and central bankers have been trying to determine the extent to which these inflationary forces prove transitory or more permanent and require policy action. The US Federal Reserve has laid out two conditions necessary for it to tighten its current, loose monetary policy, namely a return to inflation above 2% and a sustained improvement in the labour market. Whilst current inflation numbers are high, mathematically they will start to fall as the extremely low comparator readings from last year roll-off. As supply bottlenecks ease and economic growth moderates, a key factor for future direction of markets will be whether core inflation persists higher than 2% in the US. At present investors seem increasingly comfortable with the more benign transitory scenario and convinced that central bankers are under no pressure to withdraw the current extraordinarily loose monetary conditions. Towards the end of the period, surveys such as the US Purchasers Managers Index for Manufacturing as Services pointed to a slowing in the pace of economic growth, supporting the view that central banks will not withdraw stimulus prematurely, even whilst inflation data remain high. At the much-anticipated Jackson Hole Economic Symposium, Jerome Powell, the Chair of the Federal Reserve, acknowledged further improvement in the labour market and suggested the monthly bond purchase programme (quantitative easing) would be scaled back later in the year. Sufficient conditions were attached, however, not to spook markets that monetary policy would be tightening too quickly and risk choking off economic growth. As bond yields drifted lower into the period end, so too there was a rotation away from the cheaper, more cyclical 'value' areas of the market back towards companies exhibiting an ability to deliver strong structural growth as well as to more defensive assets.

Credit spreads on corporate bonds, both for investment grade and riskier high yield bonds, have reduced to levels below where they traded pre-Covid. This reflects the level of market confidence in the durability of the current cyclical recovery and a benign outlook for defaults. Elsewhere, commodity markets have broadly strengthened in line with economic growth forecasts. It seems unimaginable that a year ago oil price futures

Portfolio holdings at 31st August 2021

Legal & General Group Plc	5.33%
Temple Bar Investment Trust Plc	5.08%
Blackrock World Mining Plc	5.04%
Princess Private Equity Ltd	4.89%
Aberforth Smaller Company Trust	4.74%
Twentyfour Income Ltd	4.50%
Ediston Property Plc	4.40%
Man GLG Income	4.23%
Aberdeen Asian Income	4.01%
Standard Life Property	3.96%
Middlefield Canadian	3.78%
Palace Capital Plc	3.47%
European Assets Trust Plc	3.10%
Paragon	2.91%
BMO Private Equity Trust	2.79%
Murray International	2.78%
Ecofin Global Utilities & Infrustructure	2.54%
Cash	2.36%
Rio Tinto Plc	2.19%
Polar Capital Global Financials Trusts	2.06%
Chesnara Plc	1.98%
Aviva Plc	1.93%
Starwood European Real Estate Ltd	1.79%
Morses Club Plc	1.71%
U And I Group Plc	1.58%
GCP Infrastructure	1.57%
Boot (Henry) Plc	1.44%
Provident Financial Bond (7%)	1.38%
Cc Japan Income & Growth	1.37%
Numis Corporation Plc	1.34%
Standard Chartered Plc	1.31%
Provident Financial Plc	1.17%
Impact Healthcare REIT	1.04%
Schroder Uk Mid Cap Plc	1.03%
Natwest Group Plc	1.02%
Schroder Global Equity	1.02%
Randall & Quilter Investment Ltd	0.95%
Fulcrum Income Fund F Inc	0.93%
Taylor Wimpey	0.80%
Newriver Reit Plc	0.48%

turned negative for the first time in history. The recovery in the oil price back towards $70/ barrel is perhaps the most telling indicator of how utterly changed the world is since this time last year. The notable negative mover within the commodity space was Iron Ore, which unwound the previous sharp rise driven by restrictions to supply in Brazil coupled with strong Chinese steel demand.

Whilst it is hard to argue against the view that the easy gains for equity investors are largely behind us, the delivery of earnings over the period remains supportive of recent strong equity market performance. Given the strong recovery in global equity markets, particularly since the announcement in November of effective vaccines, investors are increasingly questioning the extent to which the current market optimism has already priced in the global economy returning to normal. It has been encouraging, therefore that the estimates for both the first quarter and second quarter earnings announced so far have proved conservative and results have been significantly ahead of expectations. Further support to equity markets has come from elevated levels of mergers and acquisition (M&A) activity. A combination of cheap financing, a recovery in corporate profitability, private equity groups flush with cash and confidence in the economic outlook suggests 2021 will overtake the all-time high for M&A activity reached before the financial crisis in 2007.

Performance

The strong rebound in performance that the fund enjoyed in the second half of its last full financial year continued into the first half of the current financial year. With the exception of our commodity exposed holdings, Blackrock World Mining and Rio Tinto, all other asset classes held within the portfolio contributed meaningfully to performance. Over the six months of this report, covering 1st March to 31st August 2021, TB Wise Multi-Asset Income made a total return of 13.9% (B Income Shares). Over this time, we outperformed both the Consumer Price Index, which rose 2.0% as well as our comparator benchmark, the IA Flexible Investment Sector, which rose 9.5%. Over 5 years as per our objective, the fund has risen 39.9% compared to a rise of 10.3% for CPI, although this remains behind the comparator benchmark, which has risen 46.3% over the same time period. Having last year had to deliver a very disappointing message over dividends, it is very encouraging to be able to report that the distribution per share for the six-month period has rebounded to 3.41p compared to 1.94p for the same period last year.

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
TB Wise Multi-Asset Income B Inc	2.7	3.1	13.9	41.2	15	39.9	154.1
UK Consumer Price Index		0.5	2	2.5	4.5	10.3	19.5
IA Flexible Investment	2.3	4.4	9.5	19.2	24.1	46.3	115.87
Quartile	2	3	1	1	4	3	2

All data sourced from FE Analytics as of the 31st August 2021 and to be read in conjunction with the [August Factsheet.]
This document was produced prior to the publication of the latest monthly CPI figures, the performance calculations assume the published CPI for the most recent month is the same as the previous month.
Past performance is not a guide to the future and outperforming target benchmarks is not guaranteed.

We described the period to August 2020 in last year's interim report as representing the most challenging backdrop for income investors in our careers. In the face of the extreme uncertainty, the immediate response of companies to the crisis had been to adopt a safety-first approach to protect their balance sheets and maintain sufficient liquidity to allow them to ride out the period of uncertainty. In certain cases, financial regulators forced or pressurised companies to withdraw dividends that had already been announced and many companies, which utilised various government support schemes, were required to cut dividends in order to do so. Whilst the period witnessed an unprecedented level of dividends either being suspended or cancelled, we believed for the vast majority of holdings within the portfolio there was a strong desire to return to paying dividends as quickly as possible. It has heartening, therefore, to see this desire converted into action as almost all of the holdings in the portfolio have subsequently returned to paying dividends. In addition to companies distributing their income again, actions taken through the second half of the year to replace non-dividend paying direct equities with investment trusts that were able to use historic reserves to continue paying dividends allowed us to boost the fund's income without sacrificing the very significant capital upside we believed existed in equity markets at the time. As such, the fund's 12-month historic yield was 4.4%, ahead of the yield delivered by UK equity markets over the same timeframe. It is worth noting, however, that 3.41p (distribution per share for the six-month period) is still below the distribution delivered in the same period in 2019 of 4.17p. The previous levels of income we were generating are not sustainable in the current economic climate and therefore we do not believe investors should expect return back to previous levels of distributions. As such, our objective to grow income distributions in line or better than CPI over a 5-year rolling period is unlikely to be met within the next 4 years. We believe the broader dividend cuts in the equity markets coupled with a significant drop in the government bond yields over the last 5 years mean attempting to restore historic levels of distributions could prove both unsustainable and risky. This could thus jeopardise the objective of growing capital in real terms over the next 5 years. Nonetheless, we believe the historic yield of 4.4% remains attractive and should form a base from which we would hope to grow.

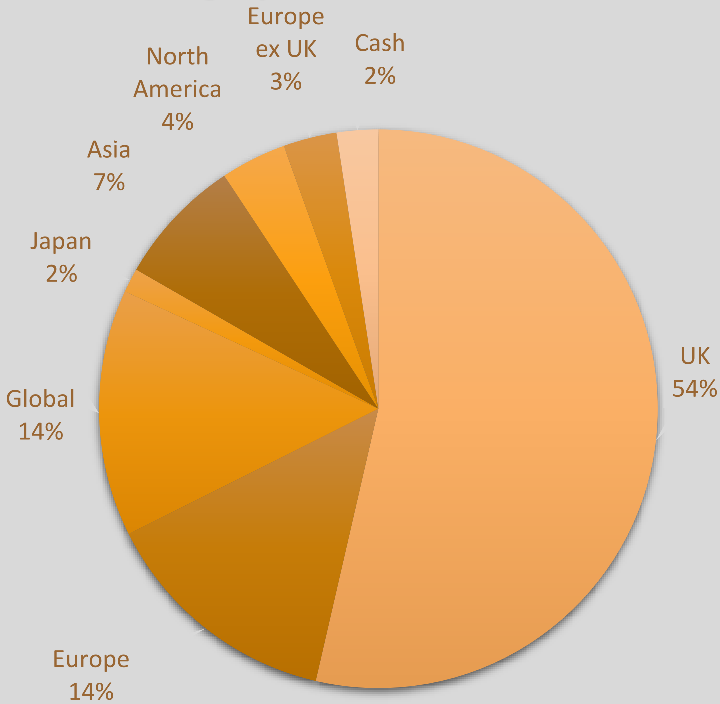
Looking to the drivers of fund performance over the past six months, there has been a very broad contribution to performance from all parts of the portfolio. Our direct equity holdings, equity and private equity funds and property were unsurprisingly the best performers over the period, as the reopening of the global economy saw earnings and asset values rebound. The more cyclical and growth exposure within the portfolio saw notably strong performance. As examples, Sthree (+55%), a global recruitment company upgraded market earnings expectations multiple times with the company's focus on both temporary placements and STEM sectors hitting the sweet spot of current market trends. Polar Capital Holdings (+38%), a fund management company with strong exposure to the US technology sector saw strong fund performance coupled with positive net inflows drive profit expectations higher. BMO Private Equity Trust (+70%) was the strongest performer driven by the combination of very strong net asset value growth and significant narrowing its discount. The fund's underlying holdings demonstrated very resilient earnings growth through the uncertainty of 2020 and, following a hiatus in realisations within the portfolio last year, the company has achieved very significant premiums to book value on the portfolio holdings sold year to date. We believe this should form a considerable source of further net asset value upside from here. At the fund level, both Schroder UK Mid Cap (+34%) and European Assets Trust (+30%), with their focus on high quality UK & European small and medium-sized companies, enjoyed strong underlying asset performance as well as a narrowing of their discounts. Despite a headwind of gently falling bond yields over the period, the performance of our value managers as well as direct equity holdings within the financial sector has been encouraging. Continued good stock selection, conservatively set forecasts at the company level coupled with M&A within the portfolios helped Aberforth Smaller Companies (+20%), Temple Bar (+10%) and Middlefield Canadian Income (+24%). This performance in all cases was delivered in the face of discounts widening back out again to very attractive levels. Within our financials holdings, notable performance was delivered by Paragon (+27%), Aviva (+18%), Chesnara (+17%), Morses Club (+21%) and Provident Financial (+27%). For the lending companies, it is increasingly apparent expectations for losses on loans originated before Covid hit were too conservative. As this previous caution in unwound to reflect the improved outlook for employment and house prices, it should lead to future profits rising. The amounts of capital (equity and debt) these companies hold on their balance-sheets relative to the loans outstanding sit at higher levels than pre-crisis, their balance-sheets are better provisioned yet in many cases these companies continue to trade below the levels they reached in 2019. Both Aviva and Provident Financial have undertaken corporate restructurings during the period, either selling off non-core divisions or putting them into run-off, leaving them more focussed than they were.

Our Property holdings have also been meaningful contributors to performance. Following a period of uncertainty over the extent to which rents would be collected, and of dividends being rebased to reflect lower income and falling net asset values, it has been encouraging to see many holdings have the confidence to once again increase dividend payments. Standard Life Investment Property Income (+22%) has used the period to dispose of properties it feels are less fit for purpose in a post-Covid world and now sits with significant balance-sheet headroom to deploy, which should allow further income growth from here. Although the discount to asset value has narrowed, it is notable this is significantly below the level the company traded at pre-Covid at a time when net asset values have started to once again grow. Ediston Property (+13%) raised its dividend by 25% in the period as the retail warehouse sector to which it is predominantly exposed has proved much more resilient than market commentators feared, dispelling the notion that all retail exposure is bad in the face of a structural shift to increased online spending. Despite management targeting income to exceed pre-Covid levels, the shares still trade at a materially lower level.

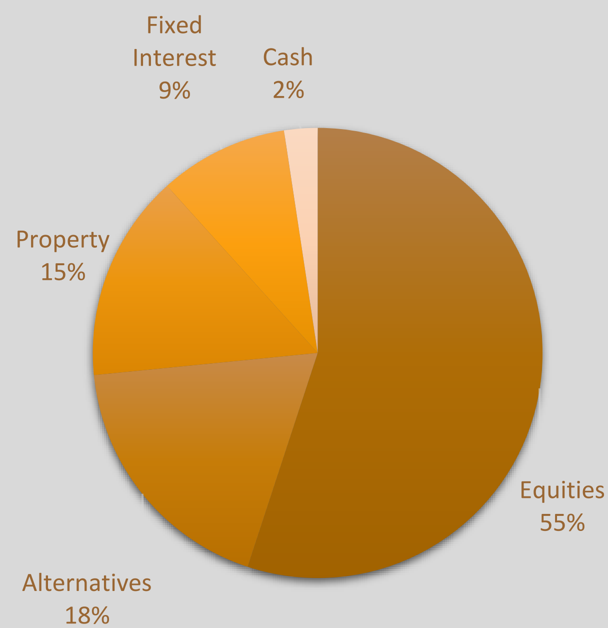
Our defensive allocation within the portfolio has also held up well, although, understandably, has delivered lower returns. TwentyFour Income (+5%), GCP Infrastructure (+8%) and Starwood European Real Estate Finance (+11%) are exposed to asset backed securities, infrastructure and real estate debt. In each case, the yields on offer are attractive and the structures provide some sort of protection if inflation were to prove more permanent and interest rates were to move higher. Finally, Ecofin Global Utilities & Infrastructure (13%), with its exposure to diversified utilities transitioning to decarbonised sources of power generation as well as renewables, has delivered strong capital growth at the same time as delivering a diversified source of income to the fund.

As discussed earlier, the main negative contributor to the fund came via our commodity exposure. Blackrock World Mining (-1%) was entirely driven by a near 10% widening in its discount and Rio Tinto (-2%) reflected weakness in the Iron Ore sector. Direct holding, New River REIT (-17%) announced the dilutive disposal of its pub business and, given the strength of the rebound in its shares at the start of the year, fell as optimism over the outlook waned. We had used the previous strength to significantly reduce this holding. Finally, Randall & Quilter (-9%) fell on no stock specific news. Following the period end the shares have rebounded on the back of encouraging reported results in its programme management business.

Geographical Allocation



Asset Type



All data as at 30th August 2021

To learn more about the TB Wise Multi-Asset Income Fund, please visit

www.wise-funds.co.uk

Allocation changes

Given the strength in global equity markets and unwavering enthusiasm over the outlook for economic recovery from Covid, we have used this period to recycle the portfolio out of some of the more cyclical and highly rated growth holdings, which have performed exceptionally well since the announcement of successful vaccines. We have exited our holdings in Sthree and Polar Capital and reduced our holdings in New River REIT, Provident Financial, Aviva, Taylor Wimpey, Natwest, Legal & General and Morse's Club. This continues the direction of travel within the portfolio to reduce the weighting to direct equities in favour of funds. Direct Equities, as a result, fell from 35% of the fund to 26%. In certain cases, this has reflected our view that valuations now better reflect the companies' prospects and, in others, we believe we are able to retain similar exposure to the underlying companies at significant discounts by converting direct holdings into equity investment trusts. Similarly, we reduced our holdings in European Assets Trust, Blackrock World Mining and Schroder UK Mid Cap which have performed strongly and where discounts had tightened considerably. Within the Private equity space, we switched some of our holding in Princess Private Equity into BMO Private Equity given the latter's higher discount to net asset value and scope for stronger net asset value growth. We believe the discounts on offer within the investment trust universe can be highly attractive but are mindful to take heed of significant discount narrowing even if we believe the underlying asset class remains attractive. In this vein, we reduced our holding in Temple Bar following a narrowing its discount close to par and chose to switch part of the holding into the open-ended GLG Income fund, retaining our UK value exposure whilst increasing the fund's liquidity and mitigating the risk that discounts widened out again.

We have also used the last six months to broaden out the geographic and asset exposure of the portfolio. We have looked for international opportunities to diversify our equity exposure and added Schroder Global Equity Income Fund as well as the CC Japan Income & Growth Trust to the portfolio in the period. With the value style remaining at a relative valuation extreme, we continue to seek exposure to this style but are happy to diversify our exposure geographically and added the Schroder Global fund accordingly. Japanese equity markets lagged this year on account of rising covid cases and a slow vaccination rollout. Both now appear to be on an improving trend and an abnormally high double-digit discount at CC Japan looked attractive whilst the Yen at a 5-year low versus sterling provided further comfort.

Whilst our high allocation to equities has been helpful to performance in the period, we are mindful that such strong performance makes future returns harder to come by. Equally a more balanced outlook for economic growth from here means we have been adding a greater element of defensiveness to the portfolio as the market has risen. Within the fixed income sector, we added to Starwood European Real Estate Finance, Twenty Four Income and GCP Infrastructure on attractive discounts. We initiated a holding in Fulcrum Income which proved very resilient in the crisis as well as diversifying our sources of income. We also initiated a holding in Impact Healthcare REIT, whose portfolio constitutes 109 care homes and has seen strong rent collection with 100% of rent collected over the course of the twelve months. Occupancy trends are improving within their care homes and with rents having inflation linkage built in, we believe an initial yield of 5.5% looks very attractive. We continue to believe the property sector remains attractive and have added to existing holdings Ediston Property and Standard Life Investment Property Income. Property sector holdings now represent just over 15% of the fund and contribute c.30% of the fund's income.

Outlook

The aim of TB Wise Multi-Asset Income is threefold: to provide an income higher than the CBOE UK All-Companies Index; to increase that income in line with inflation or better over rolling 5-year periods; as well as increasing capital in line with inflation or better over the same time period after charges.

With government bond yields in the US and UK yielding 1.3% and 0.6% respectively, lower than where they started 2020, and corporate bond spreads narrowing to levels below those seen pre-Covid, the search for sustainable yield in global asset markets has once again become very challenging. This is particularly true when adjusting for inflation, which currently sits at the highest levels since the Global Financial crisis. Indeed, recently investors in European junk bonds (bonds from the lowest quality issuers) began accepting interest payments that are lower than eurozone inflation levels (negative real yields) for the first time ever. The hunt for yield and optimism over the economic outlook is clearly pushing investors further up the risk curve whilst, at the same time, pricing already suggests investors accept the benign view that current levels of inflation will not persist. Following the vaccine rollout, confidence in the global economic outlook over the next two years has grown and the outlook for dividend growth has improved markedly. However, equity markets have responded strongly, surpassing the levels they reached pre-pandemic. The challenge for us now is to seek out those areas where yields remain attractive, economic recovery is not fully reflected in valuations and which provide some protection in the event inflation proves less transitory than expected. One area where the fund invests that we believe fulfils these three criteria is the property sector where we have steadily increased the fund's weighting. Equally we believe equities remain selectively attractive given the strength of earnings recovery, particularly on a relative basis compared to bonds. The commentary from the management teams of our direct equity holdings gives us confidence that the risk to earnings remains on the upside. Given the continued supportive monetary backdrop and further economic growth to come, we are happy to maintain an overweight equity position but mindful that risks, such as slowing activity data from China, supply side disruptions and rising inflation could all lead to high volatility from here. As a result, we have added a greater level of defensiveness to the portfolio that should provide more downside protection if we enter choppier waters as well as diversify the sources of income for investors.

General update

The TB Wise Multi-Asset Income Fund started the interim period with £87m of assets under management and finished with £89m, reflecting the performance described in this report, distributions made over the period as well as net outflows at the start of the period that appear to have now stabilised.

Since the end of the third lockdown in March, our team has adopted a hybrid work structure, combining working from home with a day or two a week in the office, allowing us to meet our colleagues in person. This approach is one that is well suited to our needs and our work requirements and could be one that we keep using indefinitely. Being a small company however, we have the luxury of flexibility and are prepared to tweak our working habits, were this to be necessary.

At the end of June, Tony Yarrow, whom many of you know, retired, almost 30 years after founding Wise Investment from which Wise Funds started to emerge in 2004. His succession planning has been a few years in the making and, as a business, we think we are well prepared to manage this new phase. It has been an honour for all of us to work with Tony and to learn from him. Although he stopped his direct involvement in the management of our funds, he remains a significant investor and has joined the employee-ownership trust that owns Wise Funds Limited as an independent trustee. We thus look forward to continue working with him in his new capacity.
Finally, all is left is for me to thank, personally and on behalf of the Wise Funds team, all our investors for their ongoing support. Please feel free to contact us if you would like a meeting or have any questions.

Philip Matthews
21st September 2021
Please note – this article contains the personal opinions of Philip Matthews and is not intended as financial or investment advice. All statistics used throughout this article are sourced from Factset and the underlying Investment Trust managers.