WISE FUNDS

TB Wise Multi-Asset Growth 2021 Interim Investment Review

September 2021

Market Background

The 6-month period in this interim report saw the world attempting to reopen economies and find a path back to normality after winter lockdowns. While the fight is undeniably an ongoing one, the key development over that timeframe has been the strong momentum in vaccination rates throughout developed countries. According to data compiled by the Financial Times, at the end of February, the UK had administered 31.6 doses per 100 residents, leading the US at 22.7 and the European Union at 7.7. By the end of August, while the UK remained in the lead at 136.2 doses per 100 residents (most vaccines require two doses, hence why this number can exceed 100%), the European Union had overtaken the US, having administered 119.3 vs 111.3. Those numbers are relevant for financial markets because they highlight several interesting dynamics. Firstly, it has become increasingly clear that vaccines are the main part of the solution out of the pandemic. While curative medication remains absent against Covid-19, preventative medicine has to take the limelight. Vaccines, on their own, aren't a panacea, however, and don't offer 100% protection. They might not protect as well against new variants either and, even if they do, their efficacy wanes over time but, as it stands, they seem to be the best hope for societies to reopen their economies and learn how to live with the virus, as opposed to hiding from it through damaging lockdowns. Secondly, the catch-up from the European Union is a piece of evidence that logistical issues that threatened access to doses in the early stages of the vaccine rollout are mainly behind us. It also shows how a reluctant cohort of society initially refusing vaccines is increasingly getting convinced by evidence of their efficacy and safety. That said the plateauing vaccination rates in the US offer a glimpse of what might happen once everyone willing to be vaccinated has had a chance to do so. Convincing the reluctant part of the population is then increasingly hard, which gives the virus a chance to keep spreading and mutating, possibly putting previous efforts in jeopardy. A similar opportunity for Covid to spread and mutate sadly exists in most emerging countries which rely on resources from richer counterparts to fund and supply vaccination roll-outs, however, in the short-term it appears that developed world countries are putting their own self-interest first.

Against the generally favourable backdrop described above, market participants focused on the light at the end of the tunnel and that optimistic tone led to strong, consistent gains across most equity markets. Compared with the end of 2020 and beginning of 2021, Value sectors (which comprises the most economically-sensitive sectors such as Retail, Consumer Discretionary, Banks…) were overtaken by Growth sectors again, with investors favouring what looks like the certainty of non-cyclical businesses' returns, such as technology, compared to businesses dependent on an economic recovery. This was particularly the case in the second half of the reporting period when the strong economic rebound showed some signs of peaking, at a time when Covid-19 cases went on the rise again. There were two notable exceptions to the strong global equity performance pattern, however: Japan and China. While the former's handling of the pandemic was generally poor initially, they are now catching up fast and it is a slight conundrum to us why Japan, with its extremely attractively valued market, with a plethora of companies with strong balance sheets and, historically, very geared towards the global economic cycle, has remained ignored by global investors. Ignorance might be all it is, with plenty to focus on closer to home for non-Japanese investors. If this is indeed the case, we would expect Japanese equities to eventually catch-up. Since the end of the reporting period, Prime Minister Suga announced his resignation ahead of the

November general elections, and this appears to have unlocked some positive sentiment, as hope triggered by change often does. With regards to China, its poor performance was mainly caused by an increased regulatory crackdown by the government, particularly in the Technology and Education sectors. Areas such as technology, healthcare and property have all suffered from such crackdowns in the recent past but there is now a clear renewed impetus in that direction. Those changes in regulation, however heavy-handed, are part of the government's attempts to distribute growth more fairly. They are thus targeted at key sectors that are essential to the Chinese population but also tend to become a great source of inequality in their society. The Chinese approach of overnight announcements that wipe out significant value in entire sectors naturally has the consequence of spooking investors, as it has done in the past few months. Our managers in the region think that the government recognizes that there is a limit to how many restrictions it can impose on essential sectors, such as Technology or Healthcare. In that context, we should thus see the current events as a phase of transition or adjustment, as opposed to a radical change which would make China uninvestable. That said, how long this transition will go on for is unclear.

Outside of equity markets, commodities also saw solid performance over the past 6 months, led by cyclical sectors, such as Energy and Industrial Metals. Both of those are geared to the re-opening of global economies and a resumption of normal economic activity. Moreover, a lot of industrial metals also benefit from structural growth coming from decarbonisation and electrification. Last but certainly not least, bond markets were mixed with yields reflecting the uncertain balancing act central banks are performing between continuing to support growth and not tapering their stimulus measures prematurely. As such, bond yields rose sharply in the first part of the period, driven by optimism over the global recovery helped by improving vaccination rates, re-opening of economies, strong economic and corporate data, and evidence inflation was rising sharply. From April onwards, however, with central bankers reaffirming their commitments to stimulus on the back of uncertain data, with the economic rebound losing some steam and with increasing Covid-19 cases, bond yields were pushed lower again. Using the US 10-year bond yields as a proxy for global bond investors' sentiment, we thus saw moves from below 1% at the start of the year, up close to 1.8% at the end of March and back down to 1.3% at the end of August. Those sharp moves were a key driver of relative performances in the equity markets with Value sectors tending to outperform Growth sectors when yields rise and underperform when yields fall. The move lower in bond yields from the end of March until the end of August, thus helps explain the Value underperformance we mentioned earlier.

Portfolio holdings at 31st August 2021

Holding	%
AVI Global Trust Plc	5.29%
Caledonia Investments Plc	4.86%
Cash	4.28%
Oakley Capital Investments Ltd	3.95%
Fidelity Asian Values Plc	3.83%
LF Ruffer Equity & General	3.72%
Schroder Global Recovery	3.70%
Pantheon International	3.61%
Odyssean Investment Trust	3.48%
AVI Japan Opportunities Trust Plc	3.46%
Aberforth Smaller Companies Trust	3.45%
Mobius Investment Trust	3.33%
JOHCM UK Equity Income	3.19%
TR European Growth Trust	3.17%
TB Amati UK Smaller Companies	3.11%
Twentyfour Income Ltd	3.01%
Aberdeen Standard Asia Focus	2.88%
Jupiter Gold & Silver Fund	2.74%
Man GLG Undervalued Assets	2.69%
International Biotech	2.50%
Baker Steel Resources Trust	2.50%
Polar Capital UK Value Opportunites	2.48%
Blackrock World Mining Plc	2.39%
Somerset Emerging Markets Discovery	2.37%
Ecofin Global Utilities & Infrustructure	2.26%
LF Lightman European	2.18%
Polar Capital Global Financials Trusts	2.16%
Premier Miton Global Infrastructure	2.01%
Henderson Eurotrust Plc	2.01%
Templeton Emerging Markets	2.01%
Vontobel-24 Absolute Return Credit	1.47%
Pacific G10 Macro Return	1.41%
Herald Investment Trust Plc	1.37%
Fulcrum Diversified Absolute Return	1.18%
GCP Infrastructure Ord	1.03%
Fidelity China Special Situations	0.95%

Performance

Looking at our performance from the end of February until the end of August, the TB Wise Multi-Asset Growth fund was up 11.1% (B Accumulation Shares), compared with 13.5% for the CBOE UK All Companies index and 2% for the UK Consumer Price Index (a proxy for inflation). Meanwhile, our peer group, the IA Flexible Investment sector was up 9.5%. Over the 5-year horizon that we think is appropriate to monitor our performance versus our objectives, the fund was up 81%, compared with 31.4% for the CBOE UK All Companies index and 10.3% for the UK Consumer Price Index. Our peer group, meanwhile, was up 46.3% over that period.

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
TB Wise Multi-Asset Growth B Acc	1.9	2	11.1	32.9	36.8	81.1	188.9
Cboe UK All Companies	2.5	3	13.5	27.1	10.2	31.4	109.6
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
Quartile	3	4	2	1	1	1	1

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.

Despite the comments above about the relative underperformance of Value sectors vs Growth sectors over the period, our Value names continued to be some of our strongest contributors. While we always strive to look for attractively valued assets (whether they are classified as Value or Growth assets), more than a third of the portfolio is directly exposed to traditional Value managers. Out of those, AVI Global Trust, the Fund's largest holding, performed strongly, helped by the manager's ability to get exposure to a wide array of businesses through holding companies or investment trusts trading at discounted valuations. As such, while being a Value investor at heart, the manager is able to invest in a number of technology or consumer staples names but without paying the high price tag on display elsewhere. Our UK Value managers also continued to perform strongly, mainly through growth in their Net Asset Values (NAVs), as opposed to changes in their discount. Aberforth Smaller Companies Trust was such a strong performer. Its focus on undervalued UK smaller companies was clearly vindicated with a large number of companies in its portfolio being targets of acquisitions. We see this as a sign that foreign competitors and private equity investors have started to appreciate the value on display in the UK and are on the hunt for attractive targets. A similar theme also helped Odyssean Investment Trust grow by close to 30% over the period as it continued to see merger and acquisitions activity boost its holdings' returns. Moreover, investors took notice and the discount on the trust turned into a small premium, which we believe is justified for such a high quality portfolio.

Finally, two of our managers with a niche approach proved the attractiveness such idiosyncratic strategies can have in a diversified portfolio like ours. The first one is Caledonia Investments which has been one of our top holdings for a number of years. Its portfolio consists of a mixture of direct global equities, direct private companies in the UK and Europe, and funds of private equity outside of Europe. The end result is a well-diversified, long-term growth portfolio with a mix of performance drivers. We think that the quality of this growth portfolio is underappreciated by investors and that its discount of more than 20% is unjustified, hence its place in our fund. The manager reported consistent strong NAV updates, driven by all 3 of the categories the trust is invested in and the Board of the Trust started buying back some shares, which helped its discount to normalise during the period. The Trust was up 28%. The second of our idiosyncratic managers who performed strongly was Mobius Investment Trust, with a return of 32%. This strong performance is a good illustration of why we like managers who are able to deliver in their specific areas irrespective of their underlying markets. The managers look for small companies in emerging markets with a strong ESG (Environmental, Social, Governance) driver. This theme is obviously one that investors are increasingly focusing on, for good reasons, but few have the expertise to do so in small emerging markets companies yet. Being a relatively undiscovered part of the global markets, the potential for outsized returns is large, as demonstrated here. The Trust benefitted from both a strong NAV increase, as well as a tightening of its discount. This performance was uncorrelated from the broader emerging markets performance which, held down by China, was flat over the same period.

Our list of detractors was limited. Sticking with emerging markets, both the Templeton Emerging Markets Investment Trust and the Fidelity China Special Situations Trust had a difficult time given their large exposure to China and, in particular, to the technology sector which was targeted by the Chinese government. When it comes to the Fidelity trust, the small size of our holding (less than 1%) and the expertise of the manager give us confidence to hold onto our position. As we explained earlier, we see the government's crackdown as part of a transition phase that will, eventually, present attractive investment opportunities. When it comes to the Templeton trust, we like its global remit and the flexibility it offers its managers to dial its allocation to China up or down. Overall, our total exposure to China at the end of the period, through China, Asia, Emerging Markets or Global funds was less than 4%.

Our biggest detractor was the Jupiter Gold & Silver Fund, which was down 11.7%. While gold was slightly up over the period, it oscillated wildly on the back of the bond yield movements we mentioned earlier. Broadly speaking, gold tends to perform well when bond yields go down and badly when yields go up. This is because gold doesn't have a yield so looks more attractive when yields on other assets are low. At present, lower yields also reflect uncertain sentiment about the future, as well as highly stimulatory measures from central banks, which might trigger inflationary pressures, an environment in which gold has historically performed well. That said, currently, we hold this fund more for the continued undervaluation we see in precious metals miners versus the rest of the market and given the strength of their cashflows, than for a macro view on the direction of precious metals. The structural growth in silver demand from the green "industrial revolution" (for solar photovoltaic equipment or electric vehicles) is also an attractive reason for us to hold onto our position.

Allocation Changes

As a team, we continued to focus on research during the period, meeting with more than 80 managers, either held in our portfolios or new ones. As the recovery is becoming more uncertain and some of the "easy gains" have already been made, it is particularly important to reinforce our convictions in our managers and continue to look for opportunities for the next stage of the cycle.

Some of those opportunities continued to be apparent in private equity, where the two trusts that we own (**Oakley Capital Investments** and **Pantheon International**) continued to trade at very attractive valuations relative to their peers and at appealing discounts to their net asset valuations. These valuations look increasingly conservative given the lag in their reporting at a time when public equity markets have continued to rise strongly. We thus increased our positions in both of those trusts.

In the Value space, although we took some profits in the UK late in the period, we added to our position in the **Polar Capital Global Financials Trust**, as we like the global remit of the strategy and its focus on a key sector for the recovery which remains out of favour with investors. Being a pure financials trust, the managers are also able to access opportunities in niche areas such as emerging markets financials or financial technology companies, which provide the trust with interesting growth potential as opposed to being purely a value play.
Finally, in terms of big positive allocation changes, we increased our positions in more defensive plays as the cycle progressed, by building up our position in the **TwentyFour Income Fund**, a bond trust that invests in asset-backed securities (financial securities backed by income-generating assets such as mortgages, credit card debt, auto loans…) and lagged the recovery, as well as by adding a new position in the **GCP Infrastructure Investments Trust**, which invests in the debt of infrastructure projects. We also let our cash position increase slightly in order to be better prepared to take advantage of pricing opportunities in the event of an increase volatility.

In terms of reductions, as per usual, we took some profits in our strongest performers, for example **AVI Global Trust, TR European Growth Trust, JO Hambro UK Equity Income Fund** and **Aberforth Smaller Companies Trust**, all of which remaining large positions in our fund. This left our UK and Global equities allocation slightly reduced.

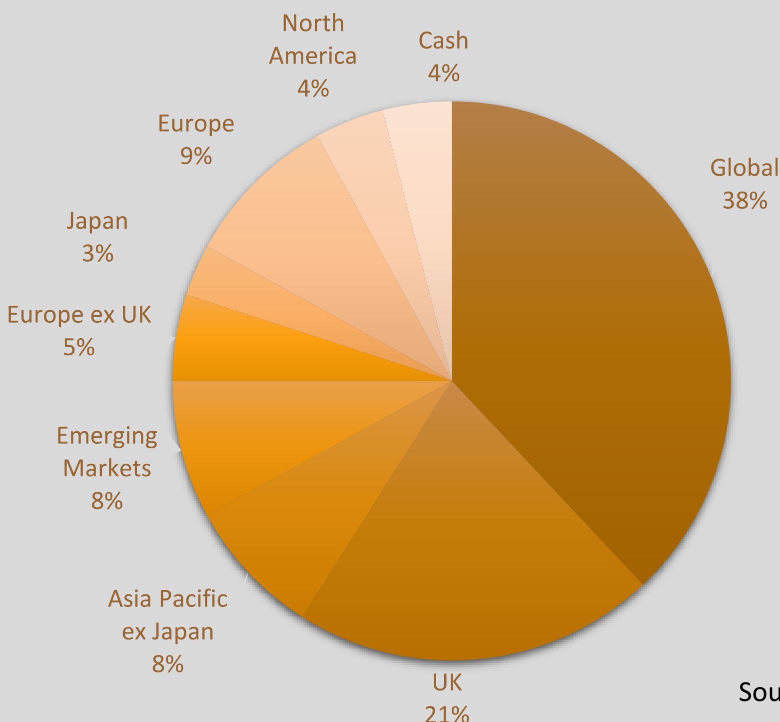
We also took some profits in the **Baker Steel Resources Trust**, a mostly private resources companies trust, in April after a strong period of performance and a tightening of its discount. This contributed to reduce our allocation to the resources sector.

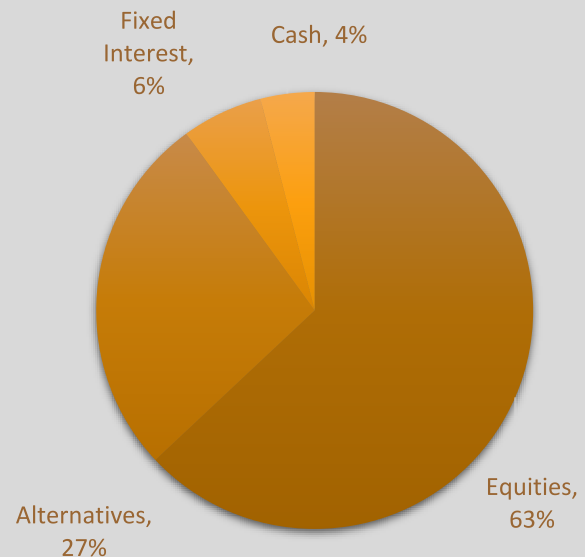
Outlook

It seems that we are now transitioning away from the relatively easy gains of the past few months and into an environment where greater selectivity is required. As such, investors should brace themselves for increased volatility. At the macroeconomic level, while data continued to show a strong recovery is under way, it is interesting to note that surprise indices, which measure the gap between investors' expectations and actual numbers peaked in the middle of June. This was to be expected as the economy can only run hot for so long and, eventually, forecasters catch up with the reality on the ground.

Such a phase of transition where growth assumptions need to be revised lower make markets vulnerable, particularly in areas where valuations don't leave much room for error. The main driver for performance from here will continue to be the ability of central bankers to successfully keeping the economic recovery on track without creating structural inflation. The jury is still out whether high current levels of inflation will persist or prove transitory and it is still too early to draw firm conclusions from the monthly data, given how much influence technical factors can have on the inflation series. When it comes to the strength and the sustainability of the economic growth, it is undeniable that the positive momentum is easing, driven by a drop in consumer spending after months of pent-up demand being spent, supply shortages that are starting to affect end products, and by a gradual normalisation of data after an extraordinary period. At the end of the period, with vaccination rates at high levels and good weather, governments appeared happy to adopt a strategy of testing how feasible it is to live with Covid rather than suppressing it completely. Against this backdrop Covid cases regained momentum in August but, encouragingly, in Europe appear to have peaked by the month end and vaccines are proving effective at reducing deaths and hospitalisations.

Whilst central banks are, so far, successfully managing to support the economy while preventing it from overheating, with valuations getting increasingly expensive and sentiment more fragile, the room for error is shrinking and investors could well lose their nerve as the year comes to an end. We remain happy, however, that there remain many areas of attractive value within global markets for active asset allocators and any volatility could provide an opportunity to broaden out our exposure.





Source – Wise Funds Ltd - data as at 30th August 2021

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

www.wise-funds.co.uk

General Update

The TB Wise Multi-Asset Growth Fund started the interim period with £65m of assets under management and finished with £82m, thanks to the performance described in this report, as well as strong positive inflows, for which we are grateful.

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.

Vincent Ropers
21 September 2021

Please note – this article contains the personal opinions of Vincent Ropers 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.

TO LEARN MORE ABOUT THIS FUND, PLEASE CONTACT
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Full details of the TB Wise Funds, including risk warnings, are published in the TB Wise Funds Prospectus, the TB Wise Supplementary Information Document (SID) and the TB Wise Key Investor Information Documents (KIIDs) which are available on request and at wise-funds.co.uk/our-funds The TB Wise Funds are subject to normal stock market fluctuations and other risks inherent in such investments. The value of your investment and the income derived from it can go down as well as up, and you may not get back the money you invested. Capital appreciation in the early years will be adversely affected by the impact of initial charges and you should therefore regard your investment as medium-to-long term. Every effort is taken to ensure the accuracy of the data used in this document but no warranties are given. Wise Funds Limited is authorised and regulated by the Financial Conduct Authority, No768269. T. Bailey Fund Services Limited is authorised and regulated by the Financial Conduct Authority, No. 190293.