WISE FUNDS

TB Wise Multi-Asset Growth Interim Investment Review

August 2022

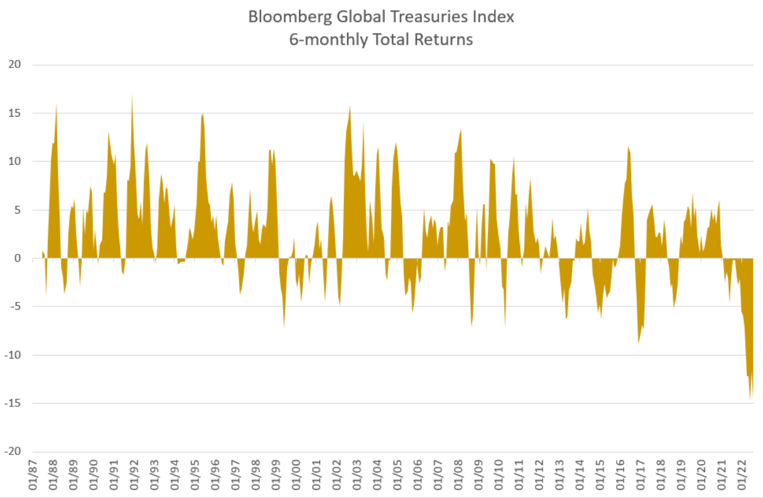
Market Background

If one word could describe the reporting period since the end of February, it would be inflation. Inflation was already starting to become an issue in the aftermath of the Covid crisis, due to cash-flushed consumers increasing spending post-lockdowns and supply shortages (mainly due to China persisting with its zero-Covid policy and locking down large manufacturing hubs as a result). However, the inflationary problem took a different dimension in February when Russia launched a unilateral invasion of Ukraine, sending the world in a full-blown energy crisis as well as impacting food prices. The war in Ukraine, which is still ongoing at the time of writing, triggered swift economic sanctions from Europe, the UK and the US, and, in turn, retaliations from Russia using restrictions on its exports of gas and oil to pressurize Ukraine's allies. Russia is the world's largest exporter of natural gas and a significant exporter of oil and coal. Importantly, the European Union used to import about 35% of its natural gas from Russia, as well as 20% of its oil and 40% of its coal (according to the Worldbank).

The war was the trigger for natural gas to rise roughly 2.5 times during the period, while crude oil jumped 35% in the weeks following the invasion before settling back down. For the reporting period, the broad commodities index which includes energy but also metals and agricultural products saw mixed underlying performance but was up 7% in US Dollar terms nonetheless. There is no worse time to realise the direct impact commodities have on our daily lives than when seeing energy and food bills increasing sharply and threatening a cost-of-living crisis like the one currently observed in developed economies. Inflation rose to levels not seen in decades and reached close to 10% in all of the US, UK and Eurozone. While employment remains strong and represents a silver lining in an otherwise harsh economic environment, it gave central banks the confidence not to waver in their resolve to quash inflation. History suggests that early and bold actions are the best way to ensure inflation pressures do not become structural, so central bankers have raised rates at an astonishing pace during the period. In the US, bank rates were increased from 0.25% at the start of the period to 2.5% in August. In the UK, the move was from 0.5% to 1.75%. In the Eurozone, the central bank increased rates for the first time in 6 years, from 0% to 1.25%.

For anyone not around during the 1970s and 1980s (i.e. the vast majority of investors), the current environment is unprecedented. Not only has inflation been an alien concept for at least four decades, but markets have also got used to operate on the understanding that central banks only reluctantly tighten financial conditions and tend to support financial assets in times of crisis. In this instance, however, central banks' actions are likely to send global economies into recession over the coming months, precipitating the deterioration in economic fundamentals. A "normal" economic cycle would see central banks hiking rates in order to cool a heated economy down. Typically, the end of cycle would see elevated asset prices, exuberant sentiment, high risk appetite, a rising trend of expensive and low quality corporate deals, stretched balance sheets, etc…In such a "normal" cycle, higher interest rates make credit more expensive and valuations look dear, bringing investors, corporate managements and consumers back down to earth. At present, however, the hiking cycle is coming at a time when sentiment was only recovering post-Covid and when little corporate excess could yet be observed. Many companies have only just managed to reshape their businesses after the Covid crisis and, thanks to recent low interest rates and availability of credit, have extended their debt at low rates and are sitting on strong balance sheets. It can thus be argued that interest rates hikes, whose role is to tame demand, are thus of limited use in the current setting since inflation is mainly caused by supply issues. The unprecedented nature of this cycle and the absence of roadmap has sent investors in a panic and led to sharp volatility, as well as some of the worst returns in decades for equities and bonds alike.

There were few places to hide from an investment standpoint during the reporting period. The traditional inverse correlation between bonds and equities (i.e. bonds go up when equities go down and vice versa) broke down, with inflation and rate hikes hurting bonds while recession fears and tighter financial conditions hurt equities. To give a sense of how unprecedented market movements were, the Bloomberg Global Treasury index fell 15% in US Dollar terms over the reporting period. This is an index of broad global investment grade (i.e. the safest) government bonds which, until not long ago, were still referred to as "risk-free" assets. Unless those governments default, they are indeed risk-free if held until maturity, but, until then, they are certainly not volatility-free and have not helped protect portfolios from the downside in equities. Another shock for many was the fact that US equities, usually a safe harbour during stormy times, was one of the worst performing markets, down about 9% in US Dollar terms. The combination of high starting valuations after years of outperformance and large allocation to high growth companies which tend to be more sensitive to interest rates rises dragged performance lower. For those reasons, Value equities have also generally outperformed Growth equities. The UK performed relatively well (-1%) helped by its low allocation to growth sectors and large names in the oil, pharmaceutical and banking sectors. It is worth noting though that, aside from those sectors which are concentrated in larger names, the UK small and medium-sized companies suffered heavy losses. Commodities, as mentioned earlier, generally performed well in this inflationary environment, with Energy the best performer. Industrial metals were weak, however, as recession fears led to a lowering of future demand forecasts.



Data Source – Wise Funds Ltd & Factset at the 31st August 2022

Performance

Over the reporting period, the TB Wise Multi-Asset Growth Fund fell 1.5%, behind the CBOE UK All Companies Index (-1%) and the IA Flexible Index (-0.6%). It also failed to beat inflation which, as measured by the UK Consumer Price Index went up 5.8%. While undeniably disappointing, over the 5-year period we define as our investment horizon, the Fund is well ahead of its benchmarks and peer group.

Data Source – Wise Funds Ltd at the 31st August 2022
Past performance is not a guide to future performance.
For more performance information, please see the latest factsheet

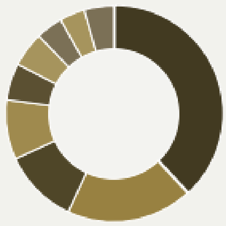
Before going into the details of our largest contributors and detractors to performance, it is worth mentioning the impact our investment trusts holdings have had on our performance. As our investors know, our main focus in this Fund is in the investment trusts sector. We believe they offer a plethora of hidden gems, are the only way -other than direct investments- to offer a genuine multi-asset portfolio, are the perfect structure for less liquid assets and are also superior to open-ended funds from a shareholder governance standpoint. We believe that a lot of the value we have added over the years is thanks to having 60-80% allocated to investment trusts in this Fund. There are two distinct drivers to investment trusts' performance: the Net Asset Value (NAV) and the price. The NAV reflects the performance of the underlying assets, while the price reflects what investors are prepared to pay for those assets. The difference between the price and the NAV is the discount (if the price is below the NAV) or the premium (if the price is above the NAV). During periods of volatility when risk aversion rises, like the period we are currently in, investors tend to sell their holdings in a hurry to raise cash. It is thus common to see discounts on investment trusts widen when markets are down, amplifying the losses already suffered by the NAV. For the patient investor, however, those periods of volatility give the opportunity to invest at hefty discounts, which should amplify positive returns when the rebound comes and more optimistic investors push discounts to tighten again. This is part of the approach we have always followed and we continue to believe it is a long-term winning strategy. It implies, however, that we may underperform in the short term during volatile periods. This has indeed been the case in the reporting period and the best way to quantify the negative impact of discounts widening is to look at the weighted average discount on our Fund. At the end of February, the Fund's discount was 6.1%, which widened to 8.6% at the end of August. Our Private Equity trusts illustrate this risk aversion phenomenon well: **Pantheon International** managed to grow its NAV by about 12% during the reporting period but its discount widened from 27% to 42% simply because of investors' fear.

Other main detractors were found in the mining space, namely **Blackrock World Mining Trust** and **Baker Steel Resources Trust.** We continue to believe that the sector is cheap and highly cash generative, even excluding a repeat of the abnormally strong post-Covid profits, while presenting an attractive hedge against inflation. The mining sector was hit by fears of recession this year, however, which impacted valuations of both of those trusts as well as their discounts. The **Jupiter Gold & Silver Fund** also struggled in the sharply rising rates environment with gold dropping from above $2,000/ounce down to $1,700/ounce.

Despite their reputation as being bond proxies, our exposure to Utilities and Infrastructure via the Ecofin Global Utilities and Infrastructure Trust and the **Premier Miton Global Infrastructure Income Fund** performed strongly during the reporting period. Both saw their NAVs not only helped by the relative defensive and inflation-hedging nature of the sector, but also by the rise in power prices.

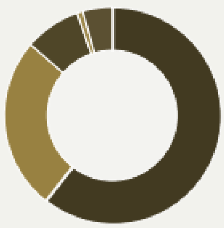
Geographical Allocation (%)

Global	38.1
UK	18.9
Europe	11.2
Emerging Markets	8.9
Asia Pacific ex Japan	5.5
North America	5.2
Japan	4.0
Europe ex UK	3.8
Cash & Income	4.4



Asset Allocation (%)

Equities	60.6
Alternatives	25.8
Fixed Interest	8.4
Property	0.9
Cash & Income	4.4



Data Source – Wise Funds Ltd at the 31st August 2022

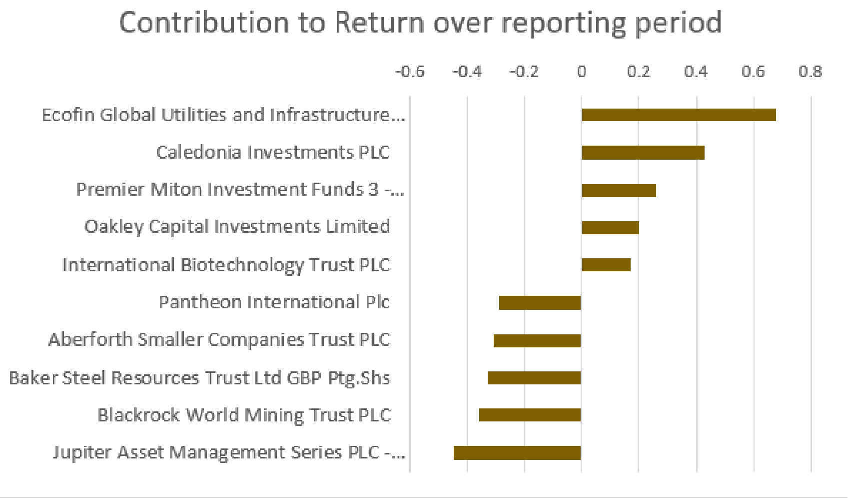
Allocation Changes

While markets were adjusting to the invasion of Ukraine, rampant inflation and the new global interest rates regime in the first half of the period, our portfolio activity was modest. A war is highly unpredictable in itself and markets reaction to wars is even more so. Meanwhile, it takes time for investors to grapple with sharp shifts in economic data and monetary policies. There is thus little first-mover advantage. We were a lot more active in the Fund from the end of Spring, however, once prices started adjusting to the new reality.

From a broad asset allocation standpoint, the two main changes were to increase our allocation to fixed income strategies over the summer and, towards the end of the period, our allocation to cash. While the latter clearly is a defensive move driven by what we perceive to be premature regain in optimism in July/August ahead of what could be volatile months ahead, our allocation to fixed income was primarily driven by attractive future return prospects. As mentioned above, bond markets had some of their worst half-year performance ever in 2022. In the US, 10-year bond yields more than doubled from 1.5% to close to 3.5%. In the UK and Europe, those moves were even more dramatic from, respectively, 1% and 0% to 3% and nearly 2%. Those yields are some of the most attractive of the past decade and, to us, after years of avoiding bonds altogether, are starting to price in enough margin of safety to look attractive again. Meanwhile, in the credit market, panic selling drove yields to levels implying defaults rates, in some cases, higher than during the Great Financial Crisis of 2008-09. While defaults will undoubtedly rise in what is likely to be a recession in the coming months, it is hard to argue that the landing will be as hard as back in 2008. As we mentioned, the average company is currently cash rich and has extended its debt maturity, meaning that there is no broad-based repayment pressures expected until 2026 in Europe and 2029 in the US. Corporates have got time on their side, which, from a fixed income investor standpoint, makes the market very attractive with high yields that can be locked-in without much fear of borrowers defaulting. Moreover, those attractive yields are found in the safer parts of the market with little incentive to take more risk for an only incremental pickup in yield. This backdrop gave us the confidence to add two new bond positions in the portfolio. The first one is the TwentyFour Strategic Income Fund, managed by the TwentyFour Asset Management team we know well through our other investments in the TwentyFour Income Fund and the TwentyFour Absolute Credit Fund. The fund gives us a broad exposure to the global government and corporate bond markets, managed by a team we rate very highly and offering us a yield close to 9% without taking undue risk. We also added a new position in the **VPC Specialty Lending Investments**, a £225m trust lending capital predominantly to non-bank lenders. This strategy is part of a much larger $7bn firm specialised in such lending and its appeal is that all the loans it provides are senior (i.e. they are the first ones to be repaid in case of default) and fully asset-backed (i.e. the loans are secured by cash-generating assets), with VPC having a full claim on cash-flow generating assets in case of defaults (of which they have only had 3 since 2007 and in each case have recovered all of their capital). The loans are structured in such a way that VPC are in the driving seat, dictating terms and lending money in stages, only when objectives are delivered, limiting the risk and the duration of the debt. We were impressed by the level of due diligence and ongoing monitoring performed on the collaterals used against the loans. Each loan has a floating rate (as opposed to a fixed rate that does not move higher when central banks hike rates), offering a particular appeal in an inflationary environment. The trust trades on a wide 25% discount and currently offers a covered yield of more than 10%. While not without risk, we think the upside more than outweighs the downside risk with this trust.

Top 20 Holdings (%)

AVI Global Trust	4.6
AVI Japan Opportunity Trust	4.0
Oakley Capital Investments	3.8
Pantheon International	3.7
Fidelity Asian Values	3.6
Caledonia Investments	3.5
TwentyFour Income Fund Ltd.	3.4
CF Ruffer Equity & General	3.4
Odyssean Investment Trust	3.3
LF Lightman European Fund	3.2
Schroder Global Recovery	3.1
Blackrock World Mining	3.0
JOHCM UK Equity Income	2.9
Aberforth Smaller Companies Trust	2.8
Fidelity Special Values	2.8
International Biotechnology Trust	2.8
Jupiter Gold & Silver	2.6
Man GLG Undervalued Assets	2.5
Premier Miton Global Infrastructure Income	2.5
Mobius Investment Trust	2.5
Total	**64.0**



In terms of more idiosyncratic changes, we used market volatility to top up our exposures to beaten up positions like Fidelity **China Special Situations**, **Herald Investment Trust** and **Polar Capital Global Financials Trust**, as well as a number of other names in a lesser relative proportion. We continued to build our position in Healthcare and

Biotechnology up, by increasing our allocation to **Worldwide Healthcare Trust**. We also added **TR Property Investment Trust** back to our portfolio. We think the trust is looking attractive currently having reversed about half of the gains made post-Covid and we like the very sensibly managed portfolio of diversified European property exposure. As ever, those purchases were financed by our profit-taking discipline in our strongest performers, the main ones being **Ecofin Global Utilities and Infrastructure Trust** and **Caledonia Investments.**

Finally, we did a couple of fund switches to focus the portfolio on the most attractive opportunities. Firstly, we exited our position in **Abrdn Asia Focus** to broaden our exposure towards global emerging and frontiers markets managers, as opposed to pure Asia. Secondly, we exited our position in the **Polar UK Value Opportunities Fund** to switch into the similarly managed **Fidelity Special Values Trust**. The latter is an investment trust trading at a relatively wide 8% discount while the former is an open-ended fund without a discount, so we hope the switch presents an attractive arbitrage.

Outlook

In what has been one of the most challenging environments for investors for decades, the message from central banks is quite clear: they are determined to combat inflation aggressively, on both sides of the Atlantic, even if this will undoubtedly inflict pain to their economies in the short term. It thus seems premature for market participants to expect support from monetary policy. Moreover, with the conflict in Ukraine threatening to turn into a war of attrition and inflationary pressures broadening out and becoming more anchored, the outlook certainly remains uncertain. After the end of the reporting period, indications in the UK and Europe of fiscal support to alleviate the cost-of-living crisis were welcome and should help limiting the magnitude of the recession.

From a market perspective, the assets that were cheap entering 2022 remain cheap in absolute and relative terms, while the very expensive ones are getting closer to fair value. That said, some pockets of exuberance that are bursting now had been building up for years and fair value is not yet attractive enough to make them appealing. Opportunities are emerging though and we feel it is important to be able to take advantage of those, hence the attraction of holding some extra cash and to stay flexible. With the bulk of investors still holding on to their positions in so-called risk assets, despite reports of record negative sentiment, we continue to expect volatile times ahead, so diversification and nimbleness will remain key over the next few months.

I would like to thank, personally and on behalf of the Wise Funds team, all our investors for their ongoing support. The Fund started the interim period with £83m under management and finished with £86m, thanks to inflows for which we are extremely grateful.

Please feel free to contact us if you would like a meeting or have any questions.

Vincent Ropers
Fund Manager
Wise Funds Limited
September 2022