TB Wise Multi-Asset Income Interim Investment Review

August 2022

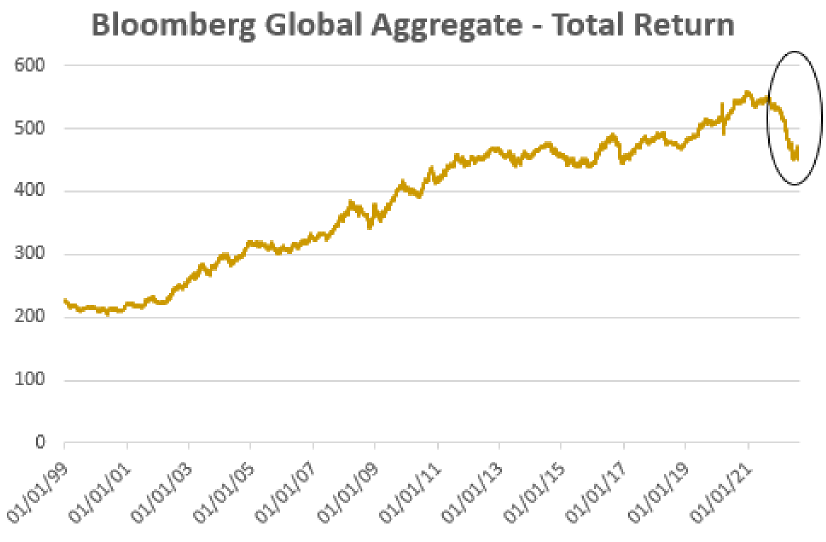
Market Background

Whilst the period under review started with a certain amount of optimism, risks that might disrupt the investment backdrop were also elevated. Valuations across a broad spectrum on asset classes were high, pushed there by the combination of unprecedented levels of liquidity support from central bankers via their bond purchase programmes (quantitative easing) as well as the expectation that corporate earnings had further to recover from Covid. As the period evolved, risks increased as persistent inflation forced central banks to increase interest rates despite mounting evidence that tighter monetary policy risked tipping developed world economies into recession. Russia's decision to invade Ukraine, therefore, only served to further darken the mood as resultant gas, power and food price rises have accelerated headline inflation to levels not seen for 40 years. The prospect of a prolonged recession in Europe as consumers grapple with lower real incomes and companies face weaker end demand has not, however, stopped the European Central bank raising rates. Currency movements have also had a significant impact on asset performance, particularly when translated back into sterling. Reflecting the expected relative path of interest rates, the strength of the economy and forecast public sector borrowing, sterling ended the period at a near 40-year low against the US dollar, cushioning the blow to UK investors of one of the worst first half-year performances from US equity and bond markets for some time. Whilst international portfolio diversification has been helpful, it is notable that most markets have delivered negative returns in local currency terms. Hopes that China might be operating in a different cycle to the rest of the world and able to reduce interest rates proved short-lived as Zero-Covid policies led to lower levels of economic growth than expected.

Whilst it feels wrong to start any commentary concerning the first half of 2022 without mentioning the horrors unfolding in Ukraine, from an investment standpoint the biggest factor impacting markets has undoubtedly been the aggressive action taken by central bankers globally to tame inflation. That central banks have been prepared to push through ever higher interest rate rises in spite of the economic fallout from the Ukraine invasion serves only to highlight how far behind the curve they feel they are in their attempts to reduce prices. Whereas a year ago investors were debating whether the uptick in inflation would prove to be transitory, a function of a huge return of demand as global economies re-opened post Covid meeting manufacturing supply chain blockages that should ease over time, over the period it has become increasingly clear that inflation is more entrenched and has continued to surprise on the upside throughout the period. Not only has the hoped for re-opening of supply chains in China been disrupted by repeated Covid related lockdowns but inflation has broadened out from manufacturing across to the service component of the economy. In recent months, headline inflation has reached nearly 10% in the UK, US and Europe and, worryingly for central bankers, core inflation, which attempts to strip out the more volatile components of fuel and seasonal food prices, has increased between 5-6% over the year. The war in Ukraine has further fuelled the troublesome underlying situation with the impact primarily being felt in commodity markets. Prior to the invasion, Russia was a significant exporter of gas, supplying around 40% of gas used in the euro area as well as being the second largest global crude oil producer. Ukraine, Belarus and Russia are also large exporters of wheat and fertilisers so the protracted nature of the conflict has led to higher food prices globally. With central bankers targeting inflation rates of 2%, the need to act has led to a very rapid series of interest rate rises globally. 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%.

Despite deteriorating consumer confidence surveys and weaker manufacturing data, tight labour markets and rising wages have meant the pace of interest rate rises has accelerated during the period and continued into September. The need to prioritise reducing inflation even at the expense of jobs and economic growth was summarised by Jerome Powell, Chair of the Federal Reserve, who stated "We have got to get inflation behind us. I wish there were a painless way to do that. There isn't." In the UK, politicians and the Bank of England seem to be pulling in opposite directions with the former lowering taxes, providing greater fiscal support to consumers and business to combat the rising energy market. Whereas fiscal policy (government spending) is now firmly targeted to stimulate economic growth, monetary policy (interest rates) looks set to tighten even further to compensate in order to reduce demand and inflation. The announcements around government support in the energy market and tax cuts look set to increase government borrowing and have had the effect of weakening to pound. Whilst this may make the UK more attractive from a competitive standpoint, it also provides a headache as it increases the price of imports and will lift inflation higher.

Against this backdrop there have been few hiding places for investors. Typically, a deteriorating economic backdrop and weak equity market performance would mean positive returns for investors in bonds. However, given the extremely low yields on offer at the start of the year, global bond markets have proven to be anything but the safe-haven investors might have hope for. Historically, government bonds offered low fixed returns to investors but offered limited return in excess of inflation. This was commonly referred to as 'risk free return', however, as a result of a decade of sub-trend growth post the Global Financial Crisis and central banks buying bonds in the market to keep yields low, the bond market entered the start of the year with yields at anomalously low levels. Despite recessionary concerns, the yield on government bonds have increased over the period as investors try to keep pace with rapidly rising interest rates. As an example, the keenly watched yield on a 10-year US government bond rose over the period from 1.8% to 3.2%. In addition, the spread (extra yield) that investors demand over the yield on government bonds to invest in corporate credit, both for less risky investment grade credit and riskier high yield credit, has also widened during the period. The Bloomberg Global Aggregate Index, a multi- currency benchmark that includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers, fell 13% over the period, justifying concerns that bonds in recent years offered 'return free risk' rather than the traditional risk free return. In the US, a similar bond benchmark fell for the first time in forty years at the same time the broader index of US equities also fell. This unravelled the traditional inverse correlation (when one goes down, the other goes up) of performance between the two asset classes one would normally expect.

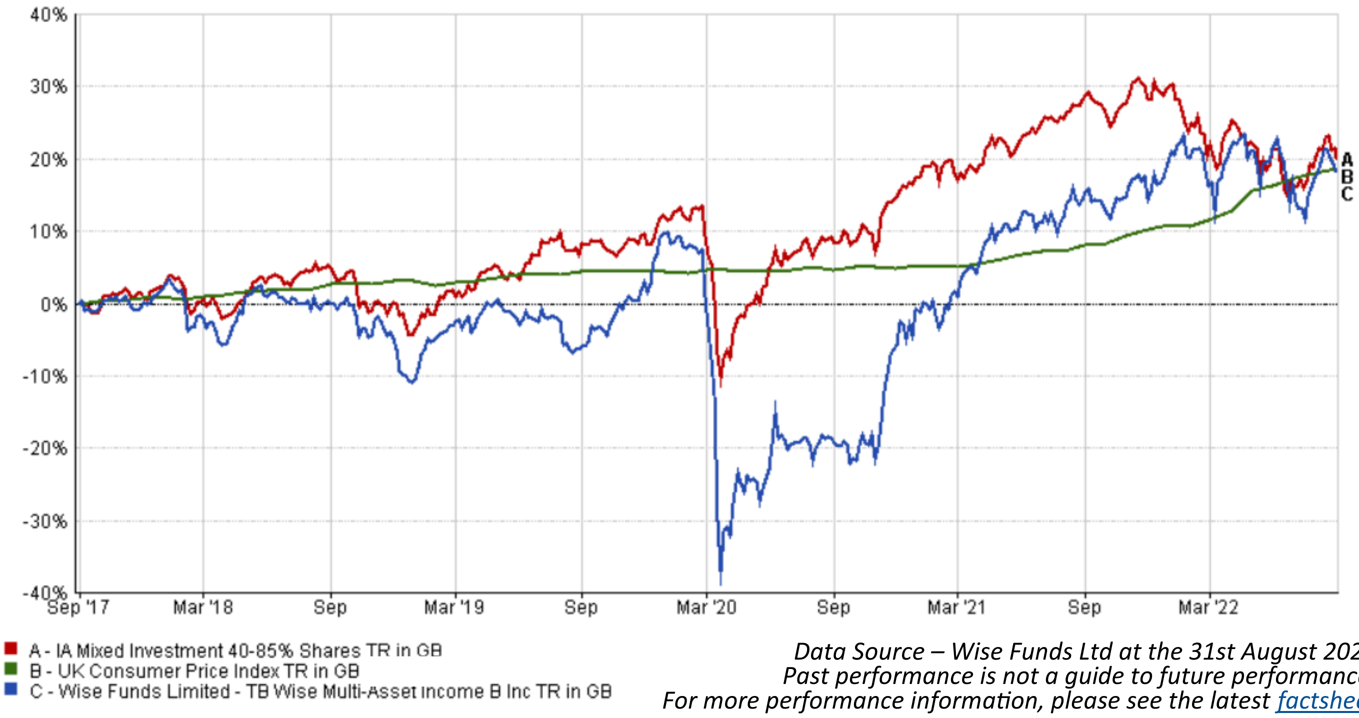


Data Source – Wise Funds Ltd & Factset at the 31st August 2022

Given the factors above, it is not surprising that global equity markets have struggled to make progress. Valuations for many companies had also increased in line with the lower discount rates offered by bonds, particularly those growth companies in the technology sector, where valuations at the start of the year in certain cases resembled the levels last seen in the late 1990s technology boom. Equity markets with exposure to traditional 'value' sectors, such as oil, banks and financials, performed more strongly as a result of cheaper starting valuations, lower earnings expectations and as those sectors benefitted from the higher energy prices and interest rates. Energy markets were particularly impacted by the Russian invasion of Ukraine. Gas prices have remained high, however, oil prices have retraced the immediate spike at the end of February and now sit only marginally higher than at the start of the year. The ability for crude oil to be more easily transported around the world, countries still willing to trade with Russia coupled with concerns over the weaker outlook for demand have helped temper prices since June. Similar weakness has been seen in industrial commodity markets, such as Iron Ore and Copper, particularly as Chinese economic growth has stalled, a key consumer of such commodities.

Performance

Given the market backdrop outlined above, the fund struggled to make much headway in the first half of the year following the rebound in performance it enjoyed in the second half of its last full financial year. Over the six months of this report, covering 1st March to 31st August 2022, TB Wise Multi-Asset Income made a total return of 1.8% (B Income Shares). Over this time, we underperformed the Consumer Price Index (CPI), which measures inflation and as explained above rose strongly by 5.8%. We outperformed our comparator benchmark, the IA Mixed Investment 40-85% Sector, which fell 1.6%. Over 5 years as per our objective, the fund has risen 18.3% compared to a rise of 18.0% for CPI, although this remains behind the comparator benchmark, which has risen 20.0% over the same time period. The distribution per share for the six-month period was somewhat lower versus last year at 3.27p compared to 3.41p for the same period. Whilst this is lower year on year, we believe this results from the timing of dividend payments in the period and are still forecasting the distribution per share to grow year on year over the course of the full year.



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

Looking to the drivers of fund performance over the past six months, the primary contribution to performance came from our exposure to utilities and infrastructure. We had been adding to these holdings through the course of last year as investors at that time were concerned longer term power prices might fall. Furthermore, their more defensive characteristics were out of favour as investors sought exposure to assets that looked likely to benefit from continued economic recovery from Covid. Our long-held holding in Ecofin Global Utilities and Infrastructure (+25%) and recent additions, John Laing Environmental (+26%) and GCP Infrastructure (+5%), all benefitted from the spike in short-term power prices as a result of their renewable power generation exposure (wind, solar, anaerobic digestion) as well as the direct inflation-linkage many of their underlying holdings enjoy in their revenue streams. The historic structural growth driver the sector enjoys from the need to decarbonise power generation in order to meet net zero targets has now been coupled by the need to increase security of energy supply away from exposure to Russian gas markets. High-yielding, government backed income streams with inflation protection have become much more attractive to investors over the period.

The first half of the year also highlighted the benefit of international diversification. Within our equity allocation, **Middlefield Canadian Income** (+14%), **Murray International** (+8%), **Blackrock Frontiers** (+7%) and **International Biotechnology** (+5%), all made progress in sterling terms. In part this was due to the extreme weakness of sterling in the period, which fell 12% against the US dollar, but also reflected the exposure to value beyond traditional UK equity funds. In addition, by diversifying away from the UK we gained exposure to businesses operating in countries and sectors whose earnings prospects are as pressured as their domestic UK counterparts. For example, whilst inflation is the major issue impacting developed world markets and a surprise to many companies, in frontier markets (countries less established than traditional emerging markets) these levels of inflation are nothing new and gaining exposure to companies in countries, such as Saudi Arabia which benefits from higher oil price, has proved a relative safe-haven despite the perceived market risks.

Top 20 Holdings (%)	
Schroder Global Equity	4.9
Legal & General	4.8
Blackrock World Mining	4.8
Aberdeen Property Income Trust	4.7
Ediston Property	4.6
TwentyFour Income Fund Ltd.	4.5
Ct Private Equity Trust	4.3
Aberforth Smaller Companies Trust	4.2
Palace Capital	4.0
Aberdeen Asian Income	4.0
Middlefield Canadian Income	3.9
Paragon	3.8
BlackRock Energy and Resources Income Trust	3.7
Polar Capital Global Financials Trust	3.2
Ecofin Global Utilities and Infra. Trust	3.0
Murray International	2.8
GCP Infrastructure Investments	2.6
Man GLG Income	2.4
Starwood European Real Estate Finance Ltd.	2.2
Empiric Student Property	2.1
Total	**74.5**

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

Elsewhere, our direct equity holdings and UK equity funds were weaker reflecting greater concerns over the state of the UK consumer. Despite low valuations, **Aberforth Smaller Companies** (-10%) and **Temple Bar** (-8%) saw underlying weaker net asset value performance compounded by a widening in their discounts. It has been notable, however, the corporate activity has continued through the period with Aberforth Smaller Companies receiving takeover bids for its holdings in Microfocus and RPS. These offers came at premiums of 98% and 90% respectively to the closing price of the shares prior to the bids serving to demonstrate some of the value corporate acquirers observe in the UK market, which will only look more attractive with the devaluation of sterling.

Our property holdings have in aggregate added positively to performance. Whilst many of the holdings were initially strong on the back of further recovery from Covid, towards the end of the period there was some weakness in those holdings with exposure to the traditional office and retail sectors. The combination of property yields pushing higher in sympathy with higher bond yields coupled with heightened fears over the potential impact of rents from any impending economic slowdown increased discounts to net asset value as we exited the period. We take comfort from the fact share prices are now discounting a significant fall in asset values and yields have only been higher over the last decade during the Covid period, when offices and retail outlets were shut and rent collection collapsed. Our largest holdings have also used the last year to dispose of properties and pay down debt so balance-sheets look well-positioned to withstand any slowdown and reduction in property valuations. The fund benefitted from its exposure to alternative property asset classes, such as care homes and student accommodation. **Impact Healthcare REIT** (+8%) enjoys rents that have direct linkage to inflation so should see rising rental streams over the next year. Whilst inflationary pressures will put some strain on the profitability of the care home tenants, they should enjoy an offsetting benefit from an improvement in occupancy, which dipped during Covid. **Empiric Student Property** (+12%) is also seeing a strong recovery in performance following a very difficult period during Covid as universities were shut and international students struggled to travel abroad. Recent trading updates indicate both occupancy and rents are set to recover this academic year to levels higher than the last pre-Covid year and the historic structural growth story of limited supply and increasing student numbers remains intact.

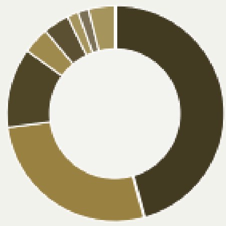
In aggregate our fixed income holdings fell only 1% over the period, a significantly stronger performance than the wider asset class. A key feature that has helped mitigate the negative headwind of rising yields has been our exposure to fixed income holdings that enjoy floating rate coupons. As interest rates rise to offset inflation so too do the bulk of the interest payments on the loans or asset-backed securities (eg mortgages) received by our holdings. Nonetheless, wider credit spreads and higher yields meant our largest holding, **Twenty Four Income Fund** (-6%), saw its price fall despite guiding the market to a much improved outlook for its income prospects for the fully year.

Allocation Changes

During the period we initiated a holding in **Blackrock Energy & Resources** funded through a reduction in our holding in **Blackrock World Mining**. The former is less exposed to Chinese economic growth, benefits from tight energy markets and energy transition and was trading on a significantly wider discount to net asset value than the latter. As yields increased during the period and better reflected both the near-term prospect of higher interest rates and the likelihood of slower economic growth into the future, we added to our fixed income allocation on weakness. We initiated a holding in the **Twenty Four Strategic Income Fund**, an unconstrained fund that seeks value across the global bond markets, as well as increasing our holding in **Twenty Four Income fund**, an investment trust that targets less liquid, higher yielding asset backed securities. Overall, we reduced our equity allocation, taking profits on **Middlefield Canadian Income** and **Murray International**, both of which had performed strongly and seen their discounts narrow. In a similar vein, we also reduced our holding in **Temple Bar**, where the discount had narrowed considerably from the very wide levels at which we initiated the holding in late 2020. We further reduced our direct holdings, exiting **Natwest** and **Standard Chartered**, both of which had performed well on the back of rising UK and US interest rates. We partially reinvested these proceeds into **Paragon Banking Group** and **Polar Capital Global Financials**, where the valuation looked attractive and a wide discount was on offer against a more broadly diversified set of financial holdings. We added to our property holdings mainly by increasing our existing exposure to **Empiric Student Property** and **Abdn Property Income** but also via the addition of **TR Property**, an investment trust that we have invested in previously which provides exposure to European Property markets at attractive levels. Offsetting this we reduced a small residual holding in **New River Reit** as well as **Urban Logistics**, which had performed well given the strength in industrial property markets. Finally, we took some profits in **John Laing Environmental** and **Ecofin Global Utilities and Infrastructure** given their significant strength year to date and continued premiums to net asset value. Whilst the uncertainty of the ongoing conflict in Ukraine provides support to global power prices, there are risks that recent strength could be undermined by windfall taxes from the government or more hopefully a resolution to war.

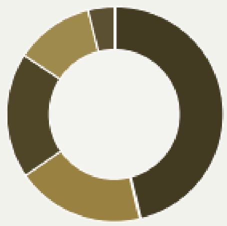
Geographical Allocation (%)

UK	45.7
Global	27.3
Europe	12.0
Asia Pacific ex-Japan	4.0
North America	3.9
Japan	1.7
Emerging Markets	1.6
Cash & Income	3.9

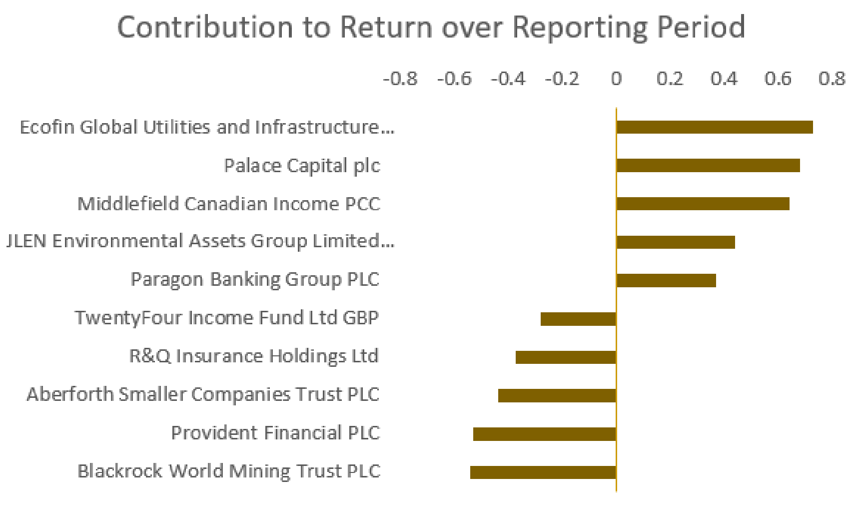


Asset Allocation (%)

Equities	46.2
Alternatives	19.2
Property	18.8
Fixed Interest	11.8
Cash & Income	3.9



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



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

Outlook

There seems to be limited cause for optimism that central bankers in the major economies of Europe, the UK and Europe are likely to deviate from their recent message that interest rates are to continue on their upward path. This will provide a headwind against which global investment markets will have to fight hard to make progress. Whilst recession does not appear to be reflected in earnings expectations, there is some comfort to be had from the fact that large swathes of global equity market valuations entered the year at cheap levels and have only fallen further subsequently. Pockets of overvaluation, such as unprofitable US technology companies in which we do not invest, have seen considerable falls in their valuation and have dragged down the valuation of profitable, high quality, growing private equity companies, in which we do. The aggregate yield available to investors entering the year on a basket of traditional yielding assets (equities, property, commodities, government and corporate credit) sat at its lowest level for nearly forty years so, whilst the first half of the year has been painful for the performance of many asset classes, it is encouraging to see yields available to investors return back to levels that offer the prospect of real returns (after factoring in the impact of inflation) over the medium term. As investors specialising in the investment trust market, there has been a notable increase in the discounts at which these companies trade relative to their net asset values. This reflects current investor nervousness but provides an extra value buffer should the outlook deteriorate further from here or greater opportunity for increased returns if investor optimism returns.

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 £85m under management and finished with £84m. The fund has seen an improvement in net flows over the course of the year for which we are extremely grateful.
Please feel free to contact us if you would like a meeting or have any questions.

Phillip Matthews
Fund Manager
Wise Funds Limited
September 2022