Charity Assets Trust

Positive absolute returns with low volatility for charities

C class February 2023 **Issue 132**

February saw the return of a 'good news is bad news' dynamic in markets as a string of positive economic surprises out of the US reignited concerns about inflation and, with it, expectations of more central bank rate hikes. This meant January's Goldilocks 'soft landing' became February's 'no landing' – a scenario in which growth remains stronger for longer, forcing interest rates to remain higher for an extended period. This was painful for most assets, with bonds suffering the most severe whiplash as global bonds followed up their best (ever) January with their worst February performance since 1990.

Whilst the bond market adjusted in real time, with yields and short-term inflation expectations rising over the month as markets priced interest rates in the US to reach 5.5% by the end of the summer (up from 4.9% at the start of the month), equities remained remarkably sanguine. At least until Valentine's Day brought stronger than expected US inflation data, hitting January's equity darlings as rate-sensitive names fell furthest (the Nasdaq fell 6.9% on the month). Against this backdrop of rising yields, the fund's long-dated inflation-linked bonds suffered, as they were not met with a commensurate rise in longer term inflation expectations. Gold, which had the additional headwind of a rising US dollar, also detracted from performance. Our protective assets offered little help as volatility and credit spreads remained subdued. Whilst a falling oil price over the period was reflected in the negative contribution from our commodity exposure, the fund's energy equities made positive returns.

The question now is whether this is just a blip in this year's risk rally, or a sign of things to come. So far, a confluence of factors has created a tactical runway for markets in the coming months. These include China re-opening, a European energy-driven rebound, US consumer resilience and positive liquidity from central banks in China, Japan, and Europe. In light of this we have used the recent weakness to add to some of our risk assets, primarily via China sensitive equities and commodities. However, we do not view this set up as sustainable for 2023 as a whole, and our positioning continues to be informed by three essential judgements: inflation can't fall back to target without recession, recession won't come without tightening financial conditions, and we won't get tighter financial conditions unless central banks are hawkish.

We are already seeing evidence a global growth rebound is inconsistent with sustained disinflation. With Fed officials having now put a 50 basis point hike back on the table, we expect both fundamentals and liquidity conditions to be challenged in the second half of the year. Hence, we have used this year's decline in volatility (equity and credit) to dial up the protection in the portfolio, using VIX calls again for the first time since 2020. What's more, equity risk premiums remain extremely depressed (at the time of writing, the yield on a six month treasury bill exceeds the earnings yield on the S&P 500) and thus our overall allocation to risk assets remains low in favour of the optionality of cash.

The danger today is the equity market had a narrative that it is now reluctant to abandon. We, the Fed and the bond market, it seems, have Keynes in our minds: "When the facts change, I change my mind – what do you do, sir?" So far equity markets and many investors, do not.

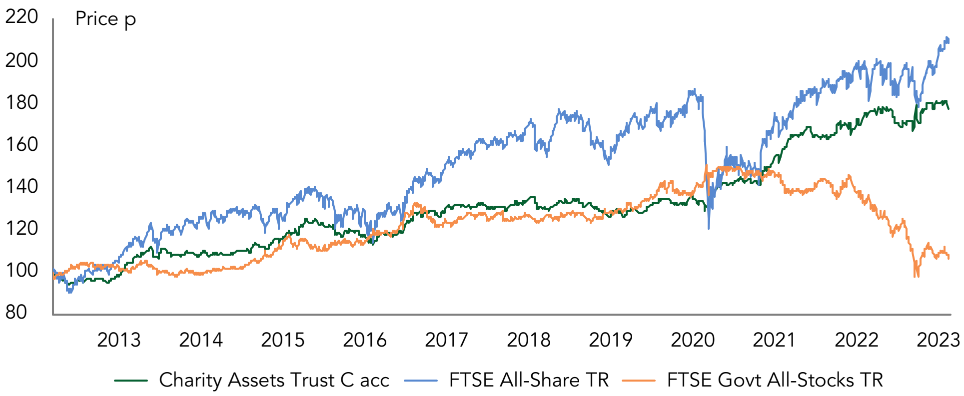
Investment objective

The fund will follow an 'absolute return' investment strategy. This means the Manager will not endeavour to track or 'outperform' a specific benchmark or stock market index, but instead seek to generate consistent positive returns regardless of the prevailing market conditions. The Manager expresses its absolute return approach through two principal investment objectives for the fund: 1) preservation of capital, which the Manager defines as not losing money on a rolling 12 month basis and 2) delivering consistent positive returns (through a combination of capital and income) greater than the return on cash (as defined by the Bank of England Bank Rate).

Responsible Investment Policy

The fund has strict restrictions on investment in alcohol, armaments, gambling, pornography, predatory lending, tobacco, oil sands and thermal coal. It also follows a proactive voting and engagement approach with companies held within the fund. The fund is monitored against UN Global Compact principles, MSCI's ESG Metrics and the managers also monitor the fund's carbon metrics.

Performance since launch on 8 March 2012



C Accumulation units	Performance %
February 2023	-1.6
Year to date	-2.2
1 year	1.5
3 years	36.9
5 years	34.4

Unit price as at 28 February 2023	p
C Accumulation	177.12
C Income	145.78

12 month performance to December %	2018	2019	2020	2021	2022
Charity Assets Trust C acc	-5.6	7.3	11.9	11.0	7.4
FTSE All-Share TR	-9.5	19.2	-9.8	18.3	0.3
FTSE Govt All-Stocks TR	0.6	6.9	8.3	-5.2	-23.8

Source: Ruffer LLP, FTSE International

Charity Assets Trust as at 28 Feb 2023

Asset allocation

Currency allocation

Asset allocation	%
Short-dated bonds	26.0
Index-linked gilts	15.3
Illiquid strategies and options	14.3
Long-dated index-linked gilts	7.0
Non-UK index-linked	5.3
Gold exposure and gold equities	5.1
Cash	0.5
UK equities	9.0
Commodity exposure	4.2
Europe equities	4.1
Asia ex-Japan equities	3.2
North America equities	3.2
Japan equities	1.8
Other equities	1.0

Currency allocation	%
Sterling	64.5
US dollar	11.0
Yen	8.3
Australian dollar	7.5
Euro	3.3
Other	5.4

10 largest equity holdings*

Stock	% of fund
BP	4.8
Taiwan Semiconductor Manufacturing Co	1.3
NEC	0.9
Alibaba Group Holding	0.8
Swire Pacific	0.7
Volkswagen	0.6
Royal Vopak	0.6
Yara International	0.6
Harmony Energy	0.5
PRS REIT plc	0.5

5 largest bond holdings

Stock	% of fund
UK Treasury index-linked 0.125% 2024	7.1
UK Treasury index-linked 0.125% 2026	4.5
US Treasury FRN 31 Oct 2024	4.2
US Treasury FRN 31 Jan 2024	4.2
US Treasury FRN 31 Oct 2023	4.2

*Excludes holdings in pooled funds

Source: Ruffer LLP.
Pie chart totals may not equal 100 due to rounding.

Fund size £345.9m

Fund information

	%
Ongoing Charges Figure	1.18
Annual management charge	1.0 + VAT
Maximum initial charge	1.0
Yield	1.56
Minimum investment	£500
Ex dividend dates	15 January, 15 April, 15 July, 15 October
Pay dates	15 March, 15 June, 15 September, 15 December
Dealing	Weekly forward, every Wednesday where this is a business day Plus the last business day of the month
Cut off	12.00pm on Wednesday (where this is a business day) and the last business day of the month
Unit classes	Accumulation and income

	Accumulation	Income
ISIN	GB00B740TC99	GB00B7F77M57
SEDOL	B740TC9	B7F77M5

Manager and investment adviser	Ruffer AIFM Limited
Trustee	BNY Mellon Fund & Depositary (UK) Ltd
Custodian	Bank of New York Mellon SA/NV
Administrator	Bank of New York Mellon (International) Limited
Auditors	Ernst & Young UK LLP
Legal advisers	Eversheds Sutherland (International) LLP
Structure	Common Investment Fund established under section 24 of The Charities Act 1993

Eligible charities are those registered as a charity with the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and/or Inland Revenue Charities, Bootle, Merseyside (including charities established in Northern Ireland), or exempt from registration with the Charity Commission by virtue of the Charities Act 1993 (as amended).

Fund Managers

Jos North

INVESTMENT DIRECTOR

Joined Ruffer in 2012 and now leads Ruffer's UK institutional business, including UK defined benefit, defined contribution and local government pension schemes, and UK charities. He is a member of the CISI, following completion of the CISI diploma and co-manages two of Ruffer's flagship funds.

Jenny Renton

INVESTMENT DIRECTOR

Joined Ruffer in 2013 and leads Ruffer's US team and co-manages two of Ruffer's flagship funds. Previous roles included oil and gas companies and the fund team at Ingenious Investments. She is a CFA charterholder.

Ajay Johal

INVESTMENT MANAGER

Joined Ruffer in 2014 from Barclays Wealth. In 2019, he worked as an equity analyst in Ruffer's Hong Kong office, then joined the charities team in London as an Investment Manager. He holds a degree in history and sociology from the University of Warwick and is a member of the Chartered Institute of Securities & Investment.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 January 2023, assets managed by the Ruffer Group exceeded £26.5bn.

Dealing line 0344 892 0906

Enquiries

Ruffer LLP
80 Victoria Street
London SW1E 5JL

Ajay Johal
ajohal@ruffer.co.uk
+44 (0)20 7963 8040
ruffer.co.uk