COLLECTIVE PORTFOLIO

FIRST HALF REVIEW 2020

The Collective Portfolio declined by a modest 1.74% over the first six months of 2020, whilst UK equities fell by 17.43%. Since launch in 2012, the portfolio has delivered an annualised return of 7.51%, comfortably ahead of the 5.91% return from the equity market. The portfolio has always been structured with a greater focus towards downside protection and therefore its resilience in recent months is no surprise, but such a structure does limit the upside in more normal conditions.

The impact of Covid-19 has been felt the world over, and the lessons learnt from these recent events will result in changes across all elements of society. These changes will come in many forms and occur over varying degrees of time, but it's ultimately too early to draw conclusions other than to look at the evidence that has already accumulated. Interest rates have been cut and it is estimated that $12,000bn of bonds worldwide offer a negative return if held to maturity. The combined balance sheets of the Federal Reserve, European Central Bank and Bank of Japan have swelled by a third over three months and are up eightfold since the period prior to the global financial crisis. Quantitative easing has become a lifeline that keeps capitalism afloat, as the Federal Reserve alone embarks on a program to buy $750bn of investment grade debt. Whilst this is effective at keeping borrowing costs low, which is vital for struggling business, it also causes asset price inflation and allows otherwise defunct companies to survive, thus adding to the inefficiencies within the global economy. Enhanced unemployment benefits and government funded furloughing schemes may provide a temporary respite, but unless people can find jobs the social consequences could be grave, especially if politics gyrate to extremes. Meanwhile, the pressures to address climate change remain and the threat of a trade war with China, and everything that goes along with it, continues to escalate. This is increasingly becoming a stock pickers market, but until some of the variables diminish it's too early to consider significant change. As the shock waves recede, the focus will move on to the economic aftershocks, which should then present us with new opportunities as behaviours start to evolve.

Throughout the period, the position in Gold Bullion Securities has performed well by rallying 13.21% over the first quarter and finishing the six-month term some 25.29% higher. However, it was the position in Pershing Square Holdings which added the most significant value to the portfolio, and it finished the period 31.23% higher. Replacing the Fundsmith Equity Fund 12 months ago with Pershing Square has added considerable value to the portfolio, yet the discount on which it was acquired appears reluctant to narrow. The substantial movement in the share price means it's on the cusp of joining the FTSE100 Index and, should this occur, the index trackers buying in to the holding should lead to further outperformance unless the underlying portfolio comes under pressure.

The biggest disappointment over the period came from RIT Capital Partners which has historically proven to be resilient during times of turmoil. However, the shares entered the period trading on a double-digit premium to net asset value, which was subsequently lost and they are now trading at a modest discount, which does not reflect the resilience of RITs underlying portfolio. The Collective Portfolio's holding in the Muzinich Short Duration High Yield Bond Fund, denominated in dollars, is to be sold in favour of the Sterling line which will protect investors from any Dollar weakness. Over the long-term, currencies are inclined to mean revert and, as the pressure surrounding Brexit uncertainty recedes, we expect the pound's period of extended weakness to draw to a close.

Portfolio Performance

(Total Return ex. Charges)

	Collective	UK Equities
6 Months	-1.74%	-17.43%
1 year	2.55%	-12.93%
3 years*	5.17%	-1.56%
5 years*	7.72%	2.87%
Inception	85.02%	62.93%
***Annualised**	7.51%	5.91%

Avg. Yield **2.98%**

Stock Performance (Total Return)

31st December 2019 - 30th June 2020

Top three

- Pershing Square Holdings 31.23%
- Gold Bullion Securities Ltd 25.29%
- Muzinich Short Duration High Yield Fund 4.33%

Bottom three

- RIT Capital Partners PLC/Fund ....-14.66%
- Caledonia Investments ....-14.89%
- Jupiter Emering & Frontier Income Trust........-20.12%

Total Return since inception

31st December 2011 to 30th June 2020

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CALEDONIA INVESTMENTS
Fund Established In 1951

Founded 1951 - Market Cap (Millions) £1,644.6

Full year results to 31st March 2020 • Top Holdings – Deep Sea Electronics, 6.9%; Cobehold, 5.4%; Stonehage Fleming, 5.0% • The NAV per share declined by 8.1% to 3236p. Currently trading at a 20% discount.• Maintains a strong balance sheet, with £365m of available resources.
• Resilient Quoted Equity performance, down 0.3% over the year and supported by cautious approach to risk management and rebalance of the Income portfolio.• Private Capital portfolio down 18%. Most companies traded normally with low impact from Covid-19. Added Stonehage Fleming, a market leading provider of family office services.• The Funds portfolio experienced strong underlying performance from private equity fund investments, but it declined by 2.8% over the full year based on valuations taken in December. 'The majority of investments are in a good position to withstand this challenging economic period though those in the consumer leisure sector face and uncertain period.' – Will Wyatt, CEO

GOLD BULLION SECURITIES
Fund Established In March 2004

Founded 2004

• Proven to be a good hedge against the economic and social impact of Covid-19, as most economies remain shut down or are slowly reopening. • Additional uncertainties, such as escalating relations between the US and China, and increasingly challenging labour markets, also reinforces demand for gold. • Central bank intervention, resulting in bond yields being pushed even lower, reduces golds opportunity cost further.'Gold ETF assets have experienced the largest calendar-year asset growth in only 5 months." – World Gold Council, June 2020

investor
Fund Established in 1916

Founded 1916 - Market Cap (millions) SEK 305,625

First quarter interim management statement • NAV declined by 10% in Q1 to SEK 572 per share. • Listed Companies generated a Q1 total return decline of 14%. Bought shares in ABB for SEK1.6bn, in Ericsson for SEK1.1bn, and in Electrolux Professional for SEK0.2bn. • Patricia Industries, the private equity arm of the company, experienced an estimated total return decline of 1%. EQT investments increased by 11% in Q1, driven by strong performance in EQT funds, and a total return of 9% in EQT AB. • Modest debt levels, with leverage amounting to 4.7% and the average maturity of 10.8 years. 'It is crucial that our companies balance the need to manage the challenging day-to-day business with continued focus on the critical investments which will strengthen them long-term.' – Johan Forssell, President & CEO

Miton
Fund Established In April 2015

Founded 2015 - Market Cap (Millions) £87

Half year results to 31st October 2019 • Three Holdings – Avacta Group plc, 9.5%; Kape Technologies plc, 6.6%; Cerillion plc, 3.5%. • Currently trading at a 17.50% discount to NAV. • With many people working from home since the outbreak of Covid-19, companies which provide online services have experienced a sales boost.• Boosted as a result of a put option taken against the FTSE100, which the fund manager was able to cash in as stock markets plunged amid fears over the coronavirus.• Just under 50% of the portfolio is invested in technology and healthcare.• The fund benefits from not being correlated to the wider market, and microcaps generally have better scope to sustain growth than large cap, even when the wider economy is not growing. 'Since we believe that UK microcaps themselves are overdue a period of major performance catch-up, we consider the Trust has the potential for strong prospects over both the short and the longer term.' – Andy Pomfret, Chairman

Muzinich & Co
Fund Established In October 2010

Founded 2010 - Fund Size (millions) $2,318.52

Top Holdings by Issuer – CSC Holdings, LLC, 2.54%; Reynolds Grp IS/Reynold, 2.23%; T-Mobile USA, Inc., 2.23%. • Broadcasting, autos and gaming have been strong recent contributors to performance, whilst aerospace has been a bigger detractor.• US high yield has outperformed all segments of the US fixed income market with loans and investment grade corporates lagging, but also generating strong positive performance.• COVID-19 sensitive companies have been able to access the new issue market as long as they have been able to provide collateral.• Expects there will be a number of defaults globally, so credit selection will be important, with the resilience of a company's balance sheet to prolonged uncertainty being a key criterion.

Pershing Square Holdings
Fund Established In 2012

Founded 2012 - Fund Size (Millions) £16,208.9

Full year results to 31st March 2020 • NAV per share increased by 58.1% over 2019, and is currently trading at a 31% discount.• Continues to engage with companies through direct Board representation in some situations, and less formal, private engagement in others.• Established new investment in Agilent Technologies, and exited its positions in Automatic Data Processing, Platform Specialty Products, and United Technologies.• Bill Ackman wrote to investors in March detailing profits made from notional hedges taken out in fear of the impact of Covid-19. The hedges were successfully exited, resulting in proceeds of £12.6bn to reinvest in "companies they love at bargain prices" 'We continue to expect that markets (and our performance) will remain volatile, and therefore, new opportunities may present themselves that are superior to investments we currently own.' – William A. Ackman, Investment Manager.

RIT Capital Partners plc
Fund Established In June 1988

Founded 1988 - Market Cap (Millions) £3,015

Full year results to 31st December 2019 • Top Holdings – Morant Wright, 5.0%; HCIF Offshore, 4.8%; Blackrock European Hedge Fund, 3.6% • Trading at a 5.2% discount to NAV as at 30th June 2020. The fund has historically traded at a 5% premium, so this could reflect a good entry point and attractive short term upside potential. • Provided with some insulation from market falls due to defensive positioning going in to the crisis, with a 42% net quote equity exposure in Q1, which is at the low end of its historic range. • Particular detractors included Emerging Markets equity, particularly in India and Brazil, as well as the more cyclical equity positions. Active approach to currency positions has helped.• Holds a cautious outlook and does not intend to increase equity exposure in the near term. 'The most important objective is long-term capital growth while preserving shareholders' capital. The essence of our investing DNA is about protecting and enhancing shareholders' wealth.' – Sir James Leigh-Pemberton, Chairman

rlam®
royal london asset management
Fund Established In April 2003

Founded 2003 - Fund Size (millions) £1,846.54

Top Holdings – Co-operative Group 6.25% 2026, 2.6%; Santander UK 10.0625% perpetual, 2.3%; Electricite de France SA 5.875% 2029 perpetual, 2.2% • Diverse sector exposure: banks and financial services, 24.7%; general industrials, 20.5%; Structured, 14.5%; insurance, 13.3%• Expects stimulus packages will leave global debt levels dramatically higher, resulting in higher real interest rates and possible further rounds of QE and additional austerity.
• Believes that, with the primary market opening up recently, led by the US, there are currently a number of oversold opportunities available.

SARASIN & PARTNERS
Fund Established In May 2006

Founded 2006 - Fund Size (millions) £381.93

Top Holdings – Enel Spa, 4.2%; Broadcom Inc, 4.1%; Reckitt Benckiser Group, 4.0% • Focusing on investments that can generate secure and growing cash flows over the long-term. • Diverse geographic breakdown with a US bias: North America, 52.1%, Europe Ex-UK, 18.6%; United Kingdom, 16.7%; Emerging Markets, 6.8%. • Expects permanent disruption in international trade flows and supply chains, with corporate borrowing costs to remain elevated, resulting in more dividend cuts and fewer share buybacks. • Tech disruption will accelerate in the longer term and investors will be more aware of social and environmental 'negative externalities', so affected shares will trade on lower valuations.

JUPITER
Fund Established in June 2017

Founded 2017 - Market Cap (Millions) £88.4

Half year results to 31st March 2020 • Top Holdings – Netease, 4.9%; Corp Inmobiliara Vesta, 4.9%; Samsung Electronics, 4.8% • Currently trading at a 6.5% discount to NAV. • Sector breakdown: IT, 29%; Financials, 18.9%; Real Estate, 16.2%; Industrials, 11.4% • Geographic breakdown: Taiwan, 22.4%; China, 10.8%; Mexico, 8.9% • The Chinese exposure has held up well, with the country being the first to enter lockdown, which also allowed it to be the first to re-open again.• Modestly geared at 17.5%, with an upper limited set at 20% of the portfolio. 'The original investment thesis that led us to purchase portfolio holdings remain intact and we believe that they remain well positioned to benefit from the compelling long-term opportunities that exist within Emerging and Frontier Markets.' – Ross Teverson and Charles Sunnucks, Fund Managers

Total Return

	H1 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Compound	Yield
Caledonia Investments	(14.89%)	12.98%	2.25%	14.83%	11.65%	4.58%	24.75%	26.83%	15.93%	(26.49%)	21.50%	153.72%	2.31%
Pershing Square Holdings	31.23%	47.25%	(0.49%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	46.53%	
Gold Bullion Securities	25.29%	13.51%	4.51%	1.75%	29.89%	(6.78%)	5.63%	(29.38%)	0.67%	11.17%	31.95%	61.00%	
Investor AB	3.96%	30.36%	0.56%	14.46%	25.75%	8.90%	16.90%	34.23%	40.28%	(10.02%)	23.18%	401.26%	1.79%
Jupiter Emerging & Frontier Income Trust	(20.12%)	21.80%	(15.81%)									2.54%	2.93%
Miton UK MicroCap Fund	(8.22%)	(0.90%)	(17.86%)	16.52%	(0.41%)							(5.54%)	0.20%
Muzinich Short Duration High Yield	4.33%	2.78%	6.63%	(6.11%)	26.12%	5.83%	5.87%	1.91%	0.00%	0.00%	0.00%	48.17%	5.34%
RIT Capital Partners	(14.66%)	12.54%	(1.01%)	5.83%	14.19%	22.69%	13.30%	13.97%	(5.37%)	2.42%	15.17%	138.08%	1.88%
RLAM Sterling Extra Yield Bond Fund	(7.29%)	8.80%	1.26%	14.31%	8.70%	2.40%	8.14%	11.83%	22.77%	4.25%	19.11%	158.44%	6.24%
Sarasin Global Higher Dividend Fund	(4.24%)	16.87%	(2.73%)	9.91%	25.78%	6.24%	10.70%	17.77%	11.04%	(6.16%)	15.45%	161.85%	4.03%

Edited by Michael Craine