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ENDOWMENTS FUND

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ECONOMIC AND FUND REVIEW

Central bank rhetoric was the main market driver over the third quarter. Markets rallied following a Federal Reserve (Fed) interest rate rise of 75bps and dovish rhetoric in June, with risk assets rising in July and the first half of August. However, this reaction went against the aim of bringing inflation under control and the Fed subsequently stated that it would do whatever it takes to bring down inflation, meaning high interest rates for longer. The market reacted with government bonds and equities again selling off in tandem.

The UK market was particularly exposed to the sell-off in September as tax-cutting government policies led to questions over the sustainability of fiscal policy. Sterling and Gilts sold off materially, forcing the Bank of England to reverse an earlier decision to start quantitative tightening and resume buying Gilts.

A broader feature over the quarter was the gradual decrease of commodity and energy prices, which had been linked to global growth fears.

The fund benefited from the holding in National Instruments which we bought late last year. The company is a leading test and measurement company and reported orders are up 20% compared to last year. Investors have increased their profit expectations and the shares have risen accordingly.

Overall, tactical asset allocation proved positive for performance. The fund has an underweight position in both equities and bonds, given that rampant inflation posed a risk to asset markets.

The main contributors to the fund's relative performance were the holdings in UK Government Index Linked bonds, as well as corporate bonds issued by the telecoms companies, Verizon Communications and America Movil. Among the detractors was the venture capital firm Molten Ventures, which was affected by the extreme volatility in the UK market.

We sold the fund's holding in the Japanese tyre manufacturer Bridgestone, and reduced exposure to gold. Additions to the fund included the French renewable energy company, Schneider Electric, which aims to maximise energy resources in a sustainable manner, with a focus on reducing carbon emissions. It is also looking to increase exposure to emerging markets.

OUTLOOK

The outlook for inflation and interest rates remains among the key concerns for investors. There are fears that raising interest rates amid a slowing economic environment, while also unwinding monetary stimulus, might induce a recession. Meanwhile, Ukraine's impressive fightback against Russia, although encouraging, raises the likelihood of a retaliatory escalation. As events are changing with remarkable speed, we continue to monitor risks to the outlook. At present, this has led to a preference for high-quality, defensive assets that are well-positioned to withstand the implications of geopolitical events.

Other challenges also require close monitoring. Rising inequality must be tackled, while the climate crisis is an unprecedented threat to humanity. Corporations and investors have a role to play in both instances, seeking to support innovation and development through effective capital allocation. We remain focused on the opportunities which are inevitably provided during times of great upheaval.

While the outlook for risk assets has deteriorated, there are reasons to be optimistic that economic weakness should be relatively contained. The inflation that has driven central banks to tighten monetary policy is heavily influenced by the effect of high energy prices connected to the war in Ukraine. If energy prices continue to normalise, inflation should come down naturally over the course of the next year, allowing central banks more flexibility in their policy-setting. Households and banks are also better capitalised than in previous years. This means they have more ability to withstand higher prices and disruption before altering their spending or lending actions.

Finally, the price action that has taken place in markets has been meaningful. Valuations now appear more reasonable than they have been, affording a more diverse opportunity set for investors seeking to make returns across a selection of assets. In such times, patience and diligence can lead to superior investment returns.

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There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). The investments of the fund are subject to normal market fluctuations. **The value of the investments of the fund and the income from them can fall as well as rise and investors may not get back the amount originally invested.** If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. **Past performance is not a guide to future returns and may not be repeated.**

Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments.

For efficient portfolio management the Fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. The Fund may also invest in derivatives for investment purposes.

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