



# Investor Day

*30 September 2021  
Grocers' Hall*



## CG INVESTOR DAY

# Agenda

- |  |                          |          |
|--|--------------------------|----------|
| 1. Monetary policy – the last 50 years         | Peter Spiller            | 10.00 am |
| 2. Risks we take (and those we don't)          | Chris Clothier           | 10.40 am |
| 3. Now we are five                             | Alastair Laing           | 10.55 am |
| 4. Coffee break                                |                          | 11.15 am |
| 5. Energy dissonance & the long shadow of Iraq | Professor Helen Thompson | 11.40 am |
| 6. Q&A   |                          | 12.15 pm |
| 7. Drinks                                      |                          | 12.40 pm |

# 50 years since Bretton Woods

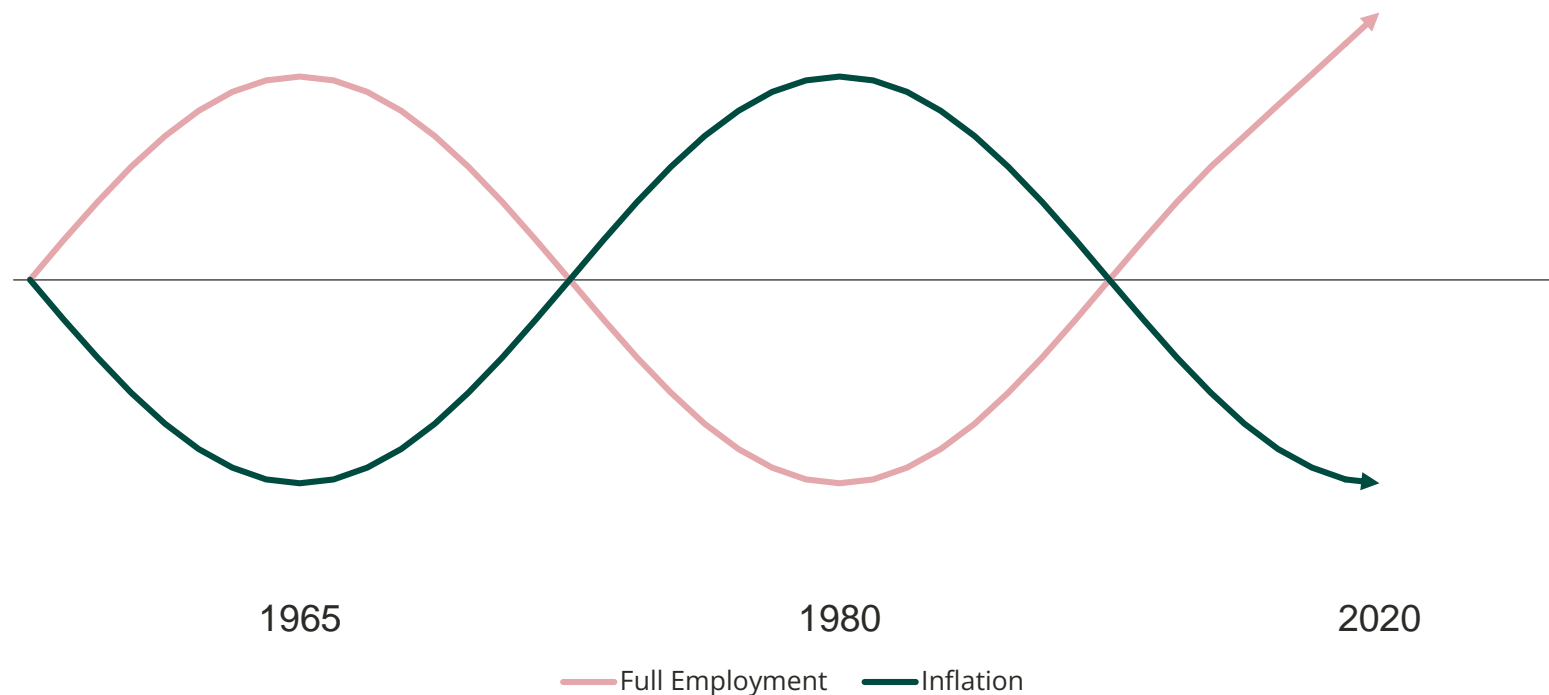
*Peter Spiller*





## MONETARY POLICY – THE LAST 50 YEARS

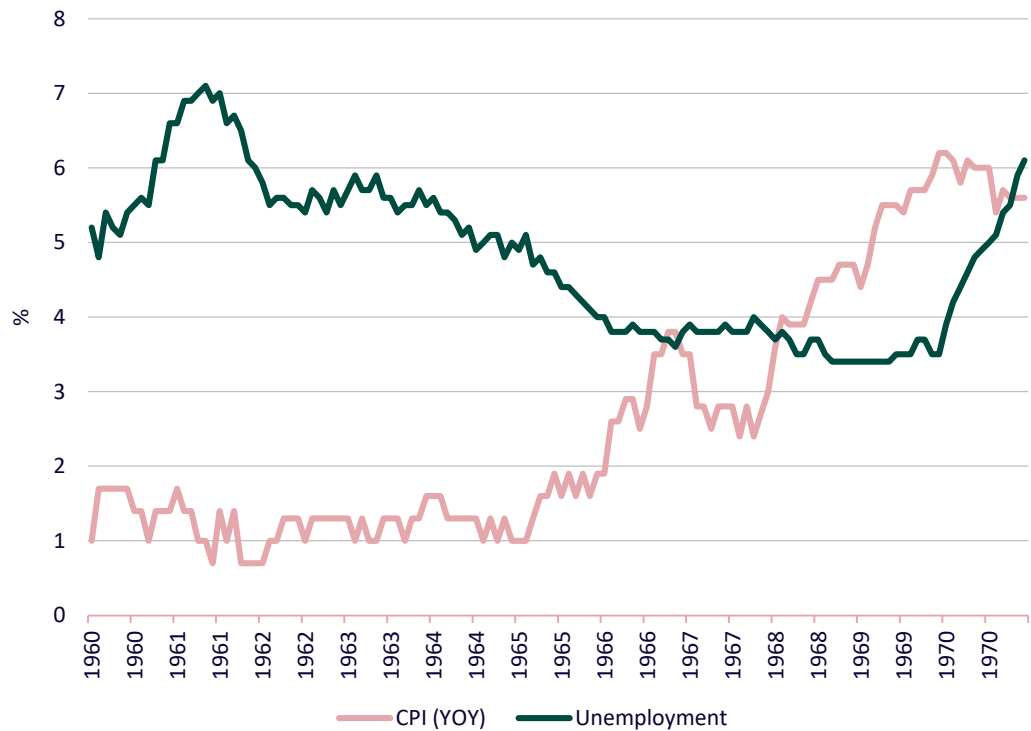
**In monetary policy, the primacy of full employment vs. inflation follows a cycle – today full employment is in the ascendancy**



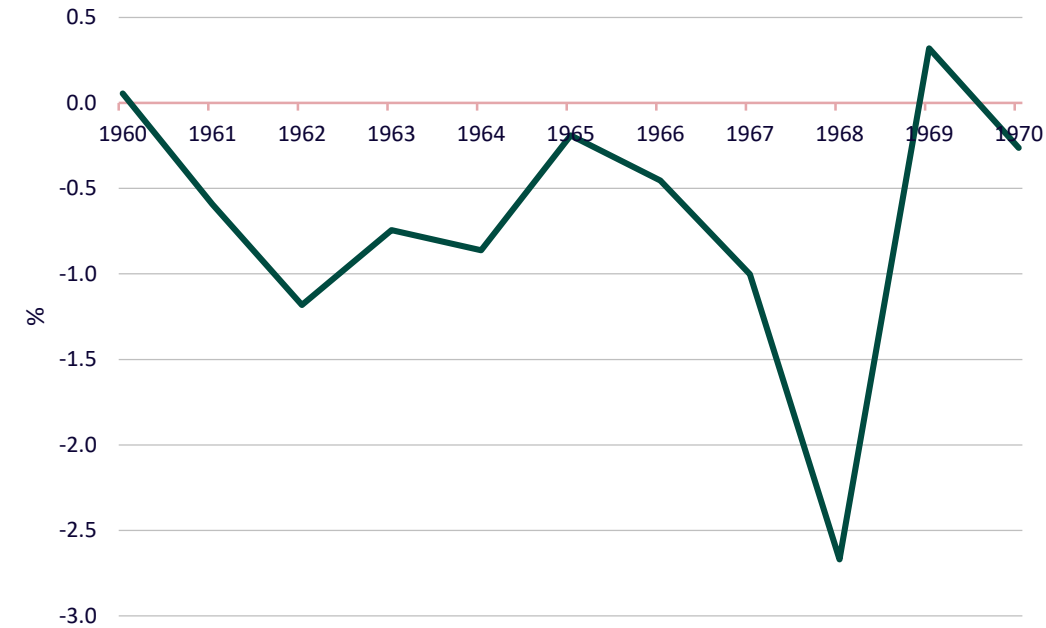
MONETARY POLICY – THE LAST 50 YEARS

# Inflation built gradually while the US was financing the Vietnam War

US CPI & U3 Unemployment (%)



Federal Budget Deficit (% GDP)



## MONETARY POLICY – THE LAST 50 YEARS

# Tussles with De Gaulle ultimately led to Nixon closing the gold window



**“It is worse in an impoverished world  
to provoke unemployment  
than to disappoint the rentier”**

---

**JOHN MAYNARD KEYNES <sup>1</sup>**



## MONETARY POLICY – THE LAST 50 YEARS

# The winter of discontent (1978-1979) was the culmination of a torrid decade





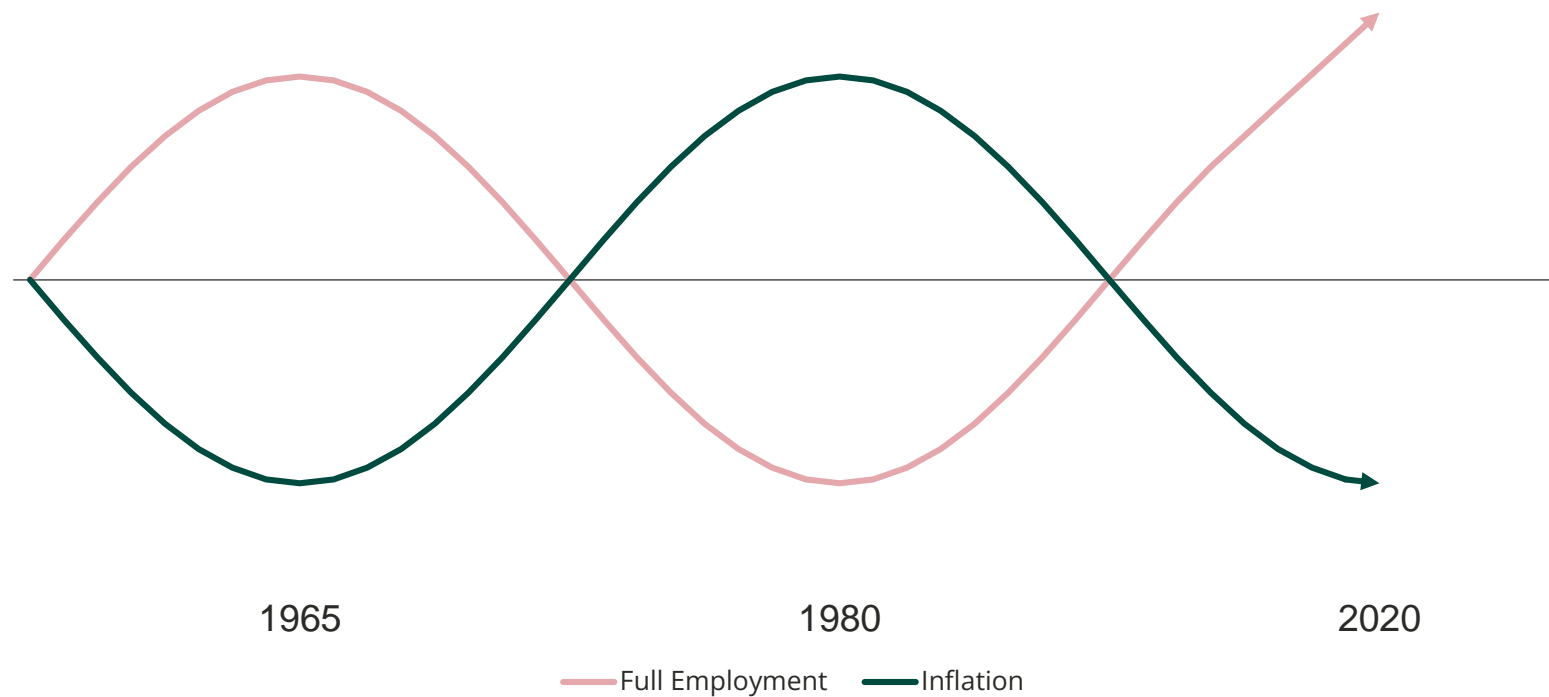
**“Inflation is the cancer of modern civilization, the leukemia of planning and hope; as with all cancers, no one can say when it begins or how fast it may spread. It is a disease of money, and when money goes, order goes with it. Inflation comes when a government has made too many promises it cannot keep and papers over the shortfall with currency which, ultimately, becomes confetti — and faith is lost.”**

---

**THEODORE WHITE <sup>1</sup>**

## MONETARY POLICY – THE LAST 50 YEARS

# 1979 proved the turning point



## MONETARY POLICY – THE LAST 50 YEARS

# Powell's explanation for the low inflation of the last 3 decades

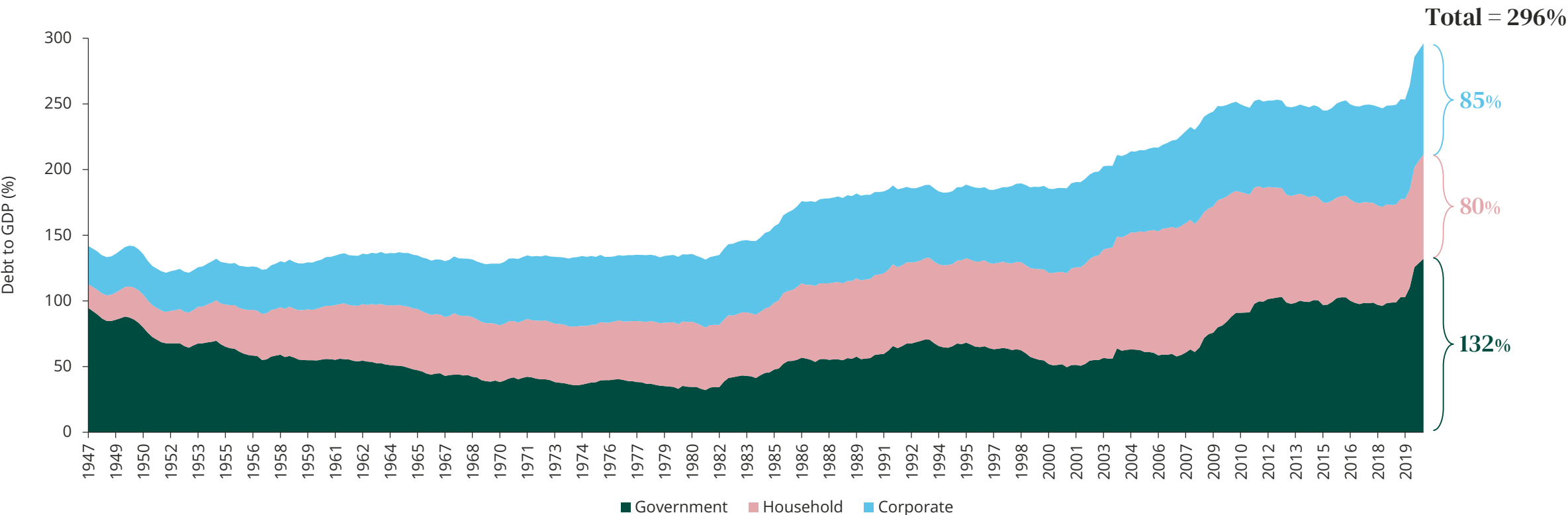
- *Demographics* ✓
- *Globalisation* ✓
- *Technology* ✓



MONETARY POLICY – THE LAST 50 YEARS

Since the end of WWII, US debt to GDP has doubled

US Non-Financial Debt to GDP



## MONETARY POLICY – THE LAST 50 YEARS

# How does Powell's view stack up now?

*Old regime*

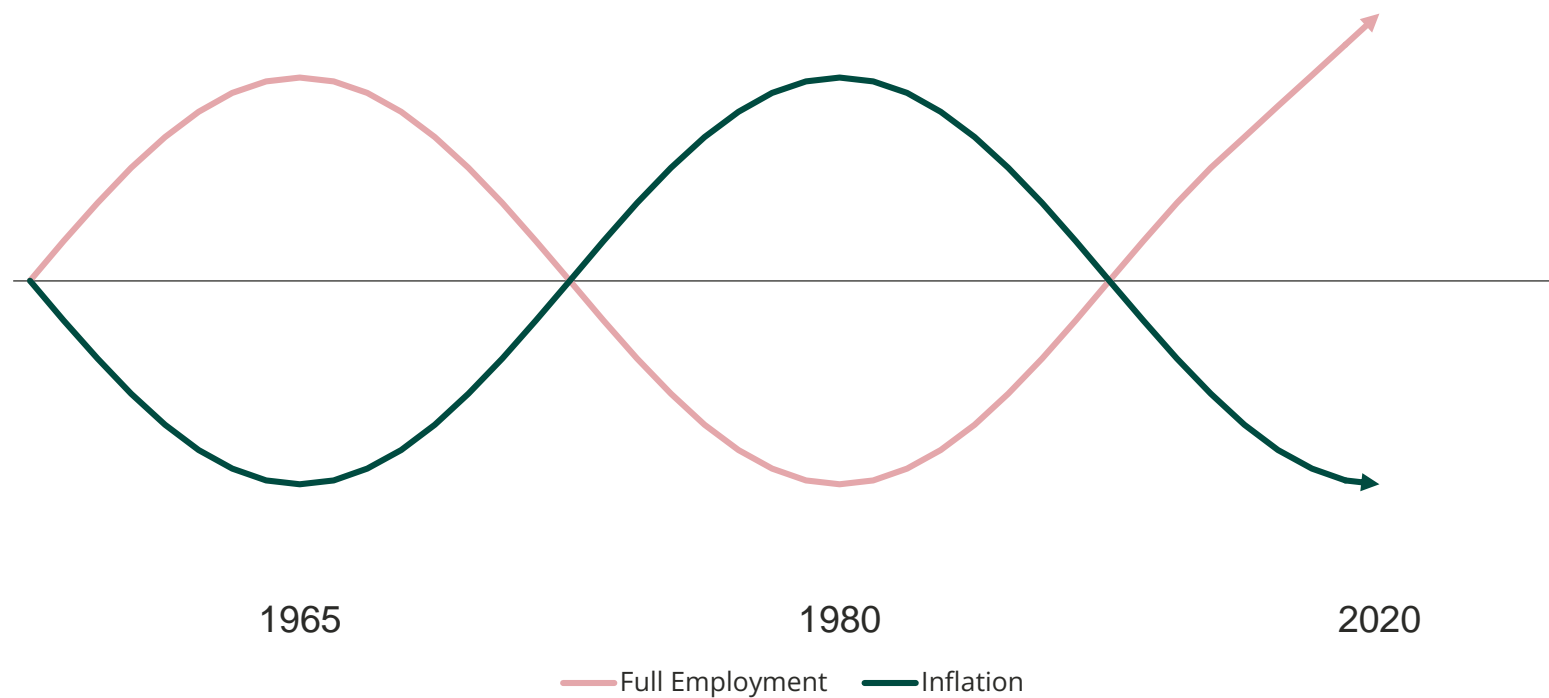
- *Demographics* X
- *Globalisation* X
- *Technology* ?

*New regime*

- *Green inflation* ✓
- *Structural change* ✓
- *Pricking asset bubble* ?

## MONETARY POLICY – THE LAST 50 YEARS

# Where are we today?





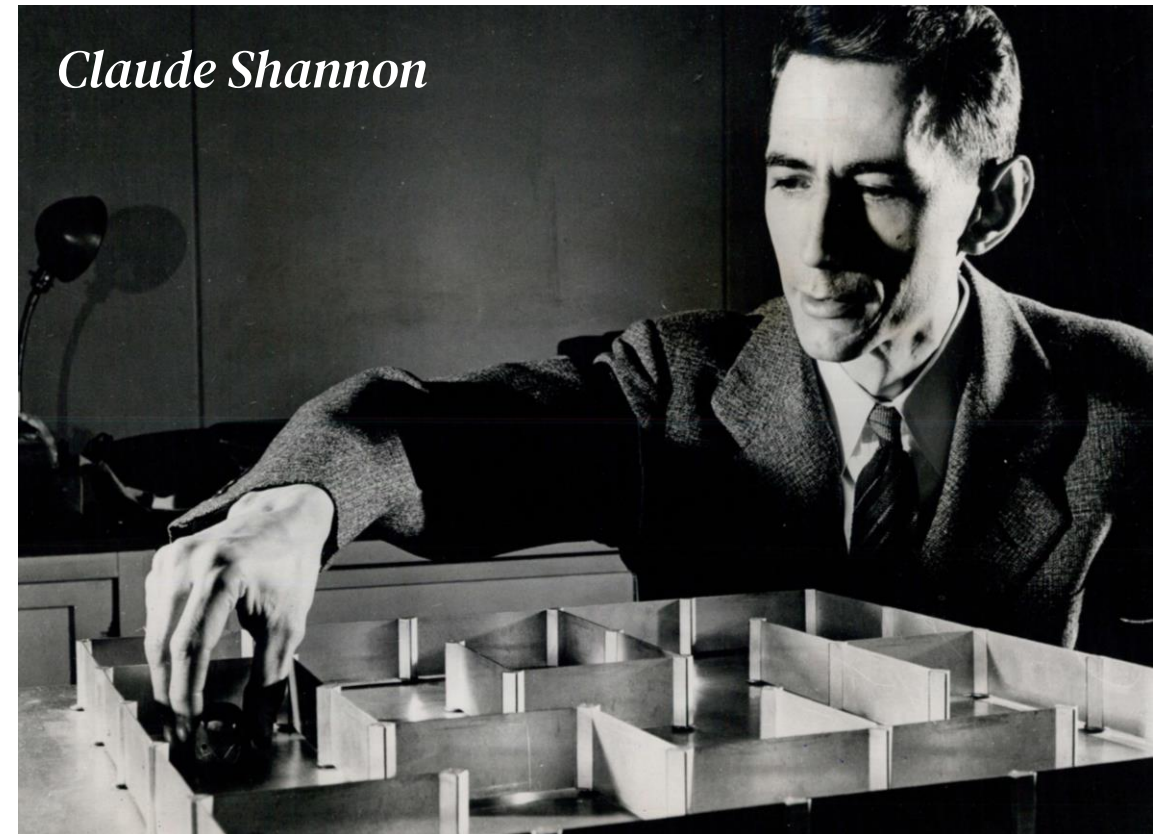
# Risks we take (and those we don't)

*Chris Clothier*



## RISKS WE TAKE (AND THOSE WE DON'T)

# The Kelly Criterion was first applied by Ed Thorp and Claude Shannon to roulette and blackjack



## RISKS WE TAKE (AND THOSE WE DON'T)

Starting with \$100, what is the optimum bet for a coin with a 52% chance of coming up “heads”?

A. \$2 “Half Kelly”

B. \$4 “Kelly Bet”

C. \$8 “2x Kelly”

D. \$16 “4x Kelly”



## RISKS WE TAKE (AND THOSE WE DON'T)

**We ran 10,000 simulations, each of 10,000 coin tosses for each of the different bet sizes – a total of 400 million primary calculations**

Simulation – Output – \$100 starting capital



## RISKS WE TAKE (AND THOSE WE DON'T)

**What was the average drawdown (peak to trough) when we follow the Kelly approach?**

*A.*                      **25%**

*B.*                      **50%**

*C.*                      **75%**

*D.*                      **90%**

## RISKS WE TAKE (AND THOSE WE DON'T)

**How much capital would you need to safely(ish) employ the martingale strategy to roulette with a £1,000 initial bet**





$$x = \sum_0^n \text{£}1,000 * 2^{n+1}$$

*where:  $n$  = expected number of losses*



£1,048,575,000



# Now we are five

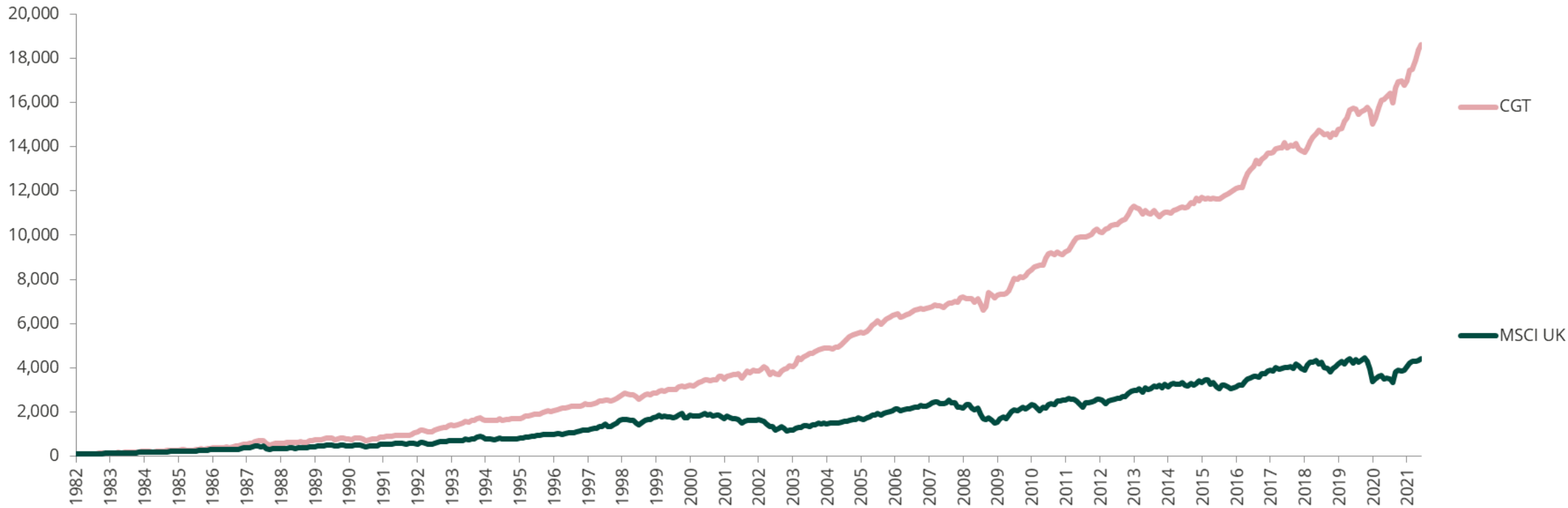
*Alastair Laing*



NOW WE ARE FIVE

# We are proud of thirty nine years of progress...

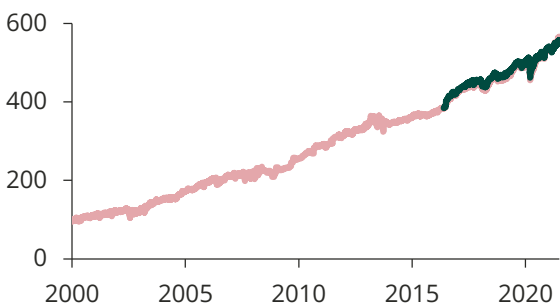
Capital Gearing Trust NAV Total Return History (Rebased) April 1982 to August 2021



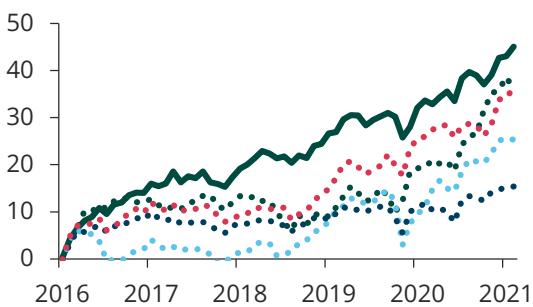
NOW WE ARE FIVE

...and are pleased with the progress of our five year old

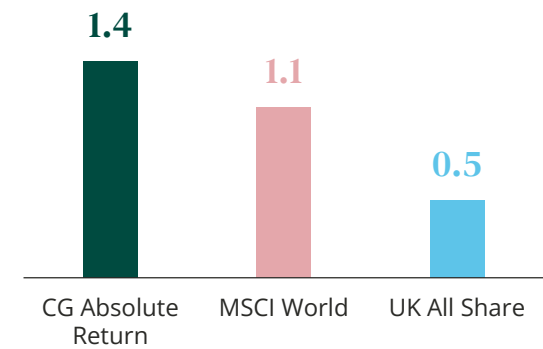
Capital Gearing Trust's DNA



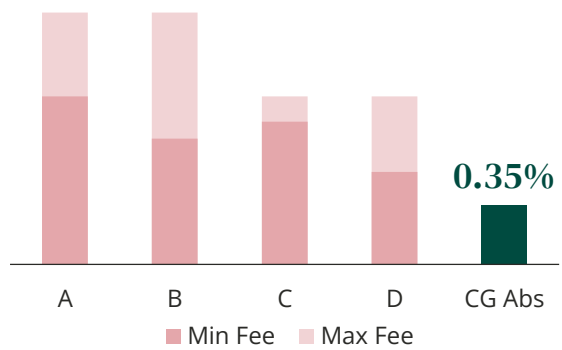
Sector Leading Returns



Strong Risk Management<sup>1)</sup>



Cost Leadership



NOW WE ARE FIVE

# The Marshmallow Test



NOW WE ARE FIVE

# The rewards of delayed gratification compound powerfully over time





## NOW WE ARE FIVE

**There are many investors who either cannot resist a marshmallow ... or have eaten more than they should**







“I trust you to hold my coat whilst  
I fish in riskier waters”

---

EXCERPT FROM A LETTER SENT TO US BY A  
CAPITAL GEARING TRUST INVESTOR

# Contact us

Theresa Russell

+(44) 203 906 1637

[theresa.russell@cgasset.com](mailto:theresa.russell@cgasset.com)

CG Asset Management  
25 Moorgate London  
EC2R 6AY

[info@cgasset.com](mailto:info@cgasset.com)

[www.cgasset.com](http://www.cgasset.com)

cgam

