

Asset Class Investment Strategies

Cash

Major Trends

The return of yield: Cash rates increased sharply in 2022. Based on the yield of 1-year government T-Bills, a proxy for expected average cash yield over the next 12 months, investors can expect to earn c. 4.2% in USD, 3.5% in GBP and 2.5% in EUR cash deposits in 2023.

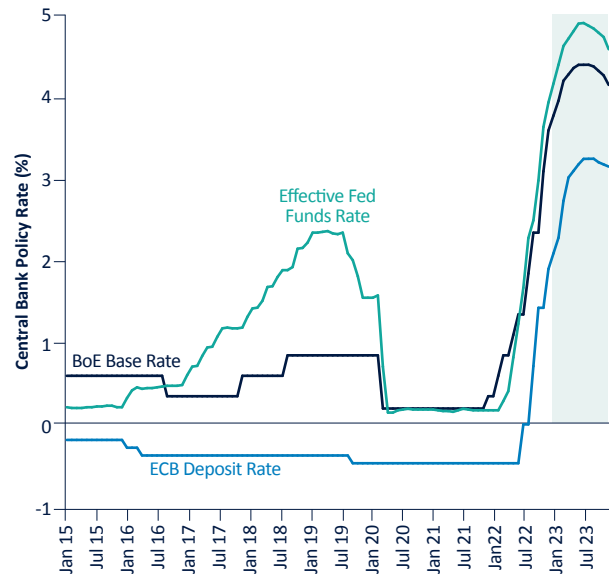
Inverted yield curves: Developed market yield curves are unusually inverted. For example, as of 31 January, the US 2-year Treasury bond had a yield of 4.2% compared to 3.5% for the 10-year bond. This reflects the market expectation that rates and yields will start to decline later this year. Our expectation is that central banks will keep interest rates higher for longer than is currently discounted in the yield curve. As such, we favour the short end of the yield curve (sub-2 years) to benefit from current elevated yields without taking on the duration risk should yields not fall as expected.

Golden Rules

- The role of cash is primarily operational, in that a small allocation is necessary to facilitate portfolio management (e.g., meeting capital calls or portfolio withdrawals). Cash allocations should generally be kept as low as operationally possible. Cash has no investment role in an optimised long-term portfolio as it offers no risk premium for which we expect to be compensated.

Exhibit 1

Cash rates rose to multi-year highs in 2022



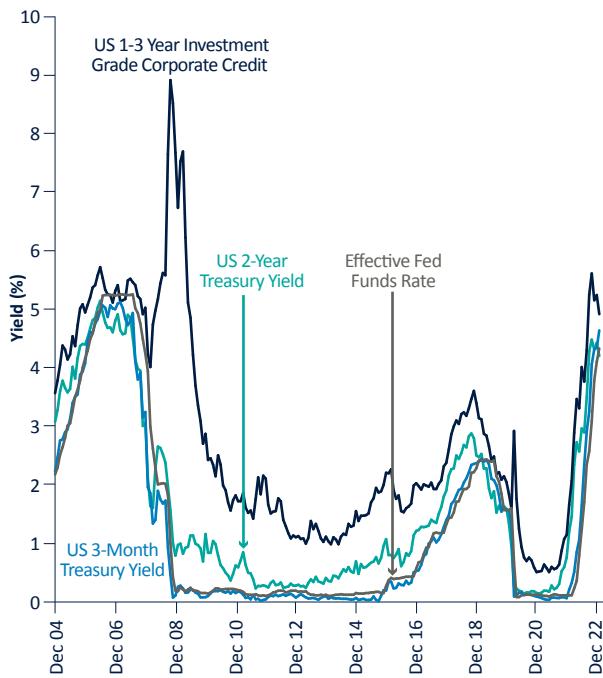
Note: Shaded area shows implied path of forward rates over next 12 months
Source: Bloomberg

2023 Strategic Priorities

- **Make use of cash-like alternatives with higher yields:** For larger cash allocations we recommend holding short duration investment-grade bonds (both government and corporate) that represent an acceptable level of risk for roughly 50 bps of additional yield and good liquidity.
- **Use cash sweeps and money market funds:** Commercial banks are often slow to pass through higher rates to customers. We have sought to offset this by proactively sweeping excess cash into money market funds or term deposits to earn higher yields.

Exhibit 2

Short duration credit offers a higher yield, but with higher risk



Source: Bloomberg

Long-Term Expected Return

Exhibit 3

Based on our 10 year forecasts, we target the following long-term expected return for Cash

	Cash
Risk-free Rate	3.5%
Risk Premium	—
Illiquidity Premium	—
Manager Alpha	—
Total Return	3.5%

The risk-free rate and expected return for Cash represent the average forward cash rate in USD over the next 10 years.

Hypothetical return expectations do not represent actual trading and are based on simulations with forward looking assumptions, which have inherent limitations. No representation is being made that any investor will or is likely to achieve returns similar to those shown. Such forecasts are not a reliable indicator of future performance.

Your capital is at risk and you may not get back the full amount invested.

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