Tactical Asset Allocation

At the highest level, our recommended 2022 tactical asset allocation (TAA) positions the portfolio for an environment of heightened macro volatility, particularly around the rate of change of key variables such as interest rates and inflation. Compared to the 2021 TAA, we recommend rotating 2% out of Hedged Equities in favour of Absolute Return strategies that should benefit from this volatility, and also rotating 2% out of Gold into Core Property to boost the portfolio's resilience to inflation spikes. Relative to the long-term SAA benchmark, we maintain our underweight of c.-5% to nominal government bonds with capital reallocated to Private Debt (+3% overweight) and Absolute Return (now +2%). We also maintain a -5% underweight to Developed Market equities, with the capital reallocated to Emerging Market equities (+1%), Hedged Equities (reduced overweight at +2%) and a Core Property allocation (+2%). We will review the Government Bond underweight if 10-year yields in the US and UK were to rise to c. 2.5% or if the German Bund rose to c. 1.5% for Euro investors. We are actively monitoring how best we seek exposures to certain parts of the commodity complex and are likely to express selected sub-sector themes within the equity portfolio.

Tactical Asset Allocation Process

Partners Capital advises a wide range of clients, each with a bespoke portfolio given different objectives and constraints. To allow us to talk about asset allocation in more general terms in this publication, we use our model portfolio. This is a hypothetical portfolio intended to reflect the 'typical' Partners Capital client portfolio. All deviations discussed here reference our central benchmark policy portfolio for a large non-taxable institutional investor denominated in USD, which we refer to as the Strategic Asset Allocation (SAA). The direction of these changes will be relevant to our taxable clients as well, but with different starting and ending allocations depending on each client's tax situation.

Our Tactical Asset Allocation (TAA) process seeks to optimise performance over the next 12-18 months. One of our founding principles is that attempting to time the entry and exit from markets will generally lead to sub-par returns over the long run. Instead, we believe the best method for securing attractive long-term returns involves setting an appropriate risk budget using our Equivalent Net Equity Beta (ENEB) framework and allocating that risk across different types of market risk including equities, credit, interest rates and inflation. In this way, we ensure that portfolios are best positioned for where we are in a cycle, remain well diversified and that clients reap the benefits of a regularly rebalanced multi-asset class portfolio.

A Strategic Asset Allocation (SAA) is typically set by optimising a portfolio given the expected long-term return and volatility of each asset class. We deviate from this SAA when our near-term return expectations deviate from the expected long-term returns. Our forward-looking assessment of likely near-term vs long-term returns draws heavily on our macro outlook to determine how certain critical events transpire in relation to what is already discounted into asset prices.

One of the key advantages of Partners Capital is the open dialogue we have with our most informed managers and clients, including some of the most experienced investors in the world. This dialogue gives us a unique view of where specific opportunities are emerging, allowing us to allocate capital to who we believe are highly skilled managers who specialise in the areas with the richest opportunity set. We welcome and encourage everyone reading this report to engage with us, to challenge our thinking and further refine our views.

2022 Tactical Asset Allocations

The 2022 TAA positions the portfolio for an environment of heightened macro volatility, particularly around the rate of change of key variables such as interest rates and inflation. The resulting portfolio will position for our base case of gradual normalisation of growth and inflation, while offering a measure of protection against the more probable negative scenarios of either stagflation or a growth shock. The TAA is also designed to allocate capital in line with our core multi-year investment themes.

Gold: The economic case for gold has diminished as developed market central banks have demonstrated a clear willingness to tighten policy and fight inflation, thereby making less likely the 'monetary debasement' scenario implied by the average inflation targeting policies espoused in the midst of the pandemic. Our modelling suggests that a gold price of $1,600 is roughly fair value when the US 10-year real yield is -0.5%, which is the level it reached just prior to Russia's invasion of Ukraine. As of the end of February 2022, the gold price was trading just above $1,900 an ounce, or over 18% above fair value reflecting a 'geopolitical premium' supported by fears of further escalation in the conflict. Gold can serve as a portfolio hedge under certain scenarios, and it is the nature of such assets that they are typically best sold when market fears are highest. On balance, we see gold as being vulnerable to a sharp correction if peace is restored in eastern Europe and economic fundamentals come to dominate, as we hope will happen soon. As such, we recommend reducing the allocation to 0%, in line with the long-term SAA.

Core Property: We recommend this 2% from the sale of gold, to be reallocated to core property, specifically those sectors with supply-demand imbalances such as multifamily and industrials/logistics. If invested correctly, these assets can offer attractive yields and some inflation protection, since multifamily has short leases with rents resetting every 12 months while industrials/logistics landlords have pricing power and leases can be structured as triple net (i.e., in addition to the rent, other costs such as maintenance and repairs, taxes and insurance are also paid by the tenant). We have partnerships with a few excellent managers who have a proven ability to source underdeveloped and undermanaged properties and drive excess returns via acquisition discounts, operational improvements, and net income growth, adding to the relative attractiveness of this asset class.

Absolute Return: Adding property and selling gold will moderately increase the sensitivity of the portfolio to changes in the economic cycle (i.e., it will increase the portfolio ENEB). To offset this, we recommend reducing the net exposure within the hedge fund allocation. More specifically, we recommend moving 2% of the portfolio out of Hedged Equities into Absolute Return managers. As outlined in the previous chapter, our central expectation for the year ahead is one of heightened macro volatility as a higher cost of capital causes risk premia to rise across all asset classes. The dispersion and interest rate curve volatility this generates should favour good Absolute Return managers, particularly risk-managed equity long/short, merger arbitrage and convertible arbitrage.

Nominal Government Bonds: As mentioned, the recommended TAA maintains a duration underweight relative to the SAA of -5%. This underweight has been accretive to portfolio performance over the last 14 months, with the Barclays 7-10 year US Treasury total return index declining -6.0% between 1 Jan 2021 – 28 Feb 2022 as the 10yr Treasury yield rose from 0.9% to 1.9%. For now, we continue to view government bonds as a poor use of capital relative to the alternatives. However, if the 10-year yield was to rise above pre-defined review triggers and the broader macro context had not materially changed, we would look to gradually reduce this underweight by adding back to nominal bonds. At present we see these review triggers at 2.5% on the 10-year US Treasury and UK Gilt, for USD and GBP denominated portfolios respectively, or 1.5% on the German Bund yield for EUR portfolios. This would most likely be funded by a redemption from liquid Absolute Return managers, although this will also depend on the relative attractiveness of other alternatives at the time.

Public Equities: Within public equities, we recommended a 27% allocation to developed market equities (-5% vs SAA), with a 5% allocation to emerging markets (+1% vs SAA) and a 13% allocation to Hedged Equities (+2% vs SAA). This relative positioning within the public equity portfolio is largely a consequence of our positive outlook on technology, life sciences and Asia, all of which we access primarily through our strong line-up of sector specialist managers with deep domain knowledge in their area of focus.

Private Equity: We continue to advocate maximum use of the illiquidity budget in client portfolios. This will vary depending on the underlying liquidity needs of the client. As a rule of thumb, our modelling suggests most long-term pools of capital can tolerate holding a third of the portfolio in illiquid assets. The TAA emphasises this point, with a total allocation of 33% in illiquid assets compared to 30% in the SAA. Private Equity is an 18% allocation in both the SAA and TAA, representing the largest component of an overall illiquidity budget. This reflects our conviction that private equity will continue to play its role in boosting overall portfolio returns by contributing the highest returns of any asset class.

Private Debt: The 3% increase in illiquid assets relative to benchmark is allocated to Private Debt. The opportunity set within the Private Debt continues to expand, with opportunities to lend into new sectors such as renewable energy, agriculture, emerging healthcare segments and technologies, as well as into innovative financing solutions. Private asset-based lending offers an illiquidity premium of 200-500 bps over liquid credit markets and is replacing traditional liquid credit as a source of yield in portfolios where investors are less liquidity-sensitive, further supporting our long-term above benchmark allocation.

Commodities: The asset class we have been asked most frequently about in recent times has been commodities. We continue to recommend clients hold an 'at weight' allocation to commodities relative to their SAA benchmark. Tight inventory levels in key commodities should support current price levels, but to provide a high positive return for investors, the demand for a commodity must increase or supply must decrease by more than is already expected by the market. Commodity markets are efficient, and we have no reason to believe that the market has failed to price in a reasonable estimate of future supply and demand dynamics, limiting the financial returns from speculating on commodities.

However, as outlined in our framework for investing behind the global energy transition, pockets of commodities may offer longer-term value. The increase in green demand for metals such as copper and aluminium appears to be a structural support. This must be weighed against demand destruction

from other destinations, such as declining Chinese investment in property and infrastructure. Research suggests that aggregate copper demand will fail to increase substantially in 2022 as the demand from the real estate and industrial sectors in China (c. 50% of global copper demand) will slow significantly and offset much of the increase in green demand (only 5% of global copper demand today). Investors have already put a significant premium on "green" commodities such as copper and aluminium, and as such we are not recommending investment just yet, but this continues to be an area we closely monitor for future investment.

Exhibit 1 summarises our recommended 2022 TAA for a non-taxable investor and contrasts it with the SAA. We have modified versions of the 2022 TAA for our US, UK and other taxpaying clients with changes that move in a similar general direction. A more detailed summary of our views of each asset class is provided in the asset class sections of this publication.

Exhibit 1

Model Portfolio 2022 Tactical Asset Allocation vs. Benchmark Strategic Asset Allocation

Asset Class	SAA	New TAA	Difference	Rationale
Cash	1.0%	1.0%	—	Maintain minimum liquidity buffer subject to operational constraints given very low/negative yields.
Fixed Income	5.0%	—	-5.0%	Government Bonds are still unattractive given low yields. We would look to reduce the size of our duration underweight for USD and GBP portfolios if the yield on 10yr Treasury and/or Gilt rose to 2.5%, and for EUR portfolios if German Bund yield rose to 1.5%.
Liquid Credit	—	—	—	High-yield bonds offer little upside with tight spreads offering little compensation for either rising inflation or rising defaults as the cost of capital increases. However, there are attractive sub-sector opportunities in structured credit and short-duration lending for those clients who cannot allocate to less liquid private debt.
Private Debt	5.0%	8.0%	3.0%	Private Debt continues to take advantage of opportunistic lending strategies offering a significant premium to Liquid Credit. Opportunities to lend into new sectors such as renewable energy, agriculture, emerging healthcare segments and technologies. Also includes uncorrelated strategies such as drug trial financing and litigation funding strategies. Skew away from vanilla middle-market corporate lending strategies, which remain competitive.
Absolute Return	12.0%	14.0%	2.0%	Absolute Return appears more attractive compared to recent years due to (i) increased capital efficiency driving better total return potential from our focus on multi-manager platforms, (ii) tactical opportunities in risk-managed ELS and merger arbitrage and (iii) AR strategies that may fare better in an environment of macro uncertainty and with rising rates.
Hedged Equities	11.0%	13.0%	2.0%	Maintain overweight reflecting the confidence in our manager lineup and their continued ability to generate outsized alpha, particularly in the current environment of high dispersion and low inter-stock correlation.
DM Equities	32.0%	27.0%	-5.0%	Underweight to long equities reflecting a preference for more nimble, specialist hedged equity managers and an overweight to EM equities. Within DM equities, we focus on concentrated, multi-sector and quantitative strategies.
EM Equities	4.0%	5.0%	1.0%	Overweight emerging markets, with allocations dedicated to the Asia Pacific region, reflecting one of our core investment themes and benefiting from the attractive opportunity for manager alpha and portfolio diversification.
Private Equity	18.0%	18.0%	—	PE remains a reliable source of outperformance through our managers' ability to "create alpha" by making material improvements in the operating performance of private companies. We focus on the lower middle market, where there is less competition and better valuations. PE is the key means to investing in the long-term winners of tech disruption through growth equity and venture capital.
Inflation-Linked Bonds	5.0%	5.0%	—	ILBs are real assets serving as a store of value that will protect portfolios in the event of higher-than-expected inflation. Also provides exposure to interest rate duration and is highly liquid, allowing for rapid portfolio rebalancing in a market sell-off.
Gold	—	—	—	Recommend removing gold from portfolios in 2022, consistent with the long-term benchmark. Gold has performed well as a portfolio hedge given the Russian invasion of Ukraine, but the economic case for gold has diminished given the rising interest rate environment and higher real yields.
Commodities	—	—	—	The increase in demand for "green metals" such as copper and aluminium appears to be a structural support. In the near term, this must be weighed against demand destruction from other destinations, such as declining Chinese investment in property and infrastructure. This is an area we are closely researching, as detailed in our investment themes and our framework for investing behind the global energy transition.
Core Property	—	2.0%	2.0%	Structural changes resulting from the COVID-19 pandemic create both challenges and opportunities. Within Core Property, we target those sectors with supply-demand imbalances such as multifamily and industrials/logistics, which provide attractive yields and good inflation protection. Where possible, clients should gain property exposure via PERE, where there is greater scope for value add.
Private Equity Real Estate	7.0%	7.0%	—	
Total	**100%**	**100%**	**0%**	

Source: *Partners Capital*

Exhibit 2 below shows the portfolio-weighted duration resulting from nominal and inflation-linked bonds as well as from any credit investments. We are currently targeting a look-through duration of 0.5 years in our USD and EUR-denominated portfolios relative to the SAA duration of 0.8 years. For GBP denominated portfolios the TAA portfolio-weighted duration is 1.2 years compared to a benchmark duration of 1.7 years. The longer duration of GBP portfolios is largely a reflection of the long market duration of the Inflation-Linked Gilt All Stock index of 22 years.

With inflation risks skewed to the upside, our allocation to interest rate duration is achieved predominantly through our allocation to inflation-linked bonds. However, as mentioned, if the yield on the 10-year US Treasury was to rise to 2.5%, we would likely look to close the duration underweight. Intuitively, Property has some embedded sensitivity to interest rates. However, the beta of property to the 5-10 year Treasury Index is not statistically significant over the last 5-years and as such we tally up portfolio duration excluding property.

Expected Returns from 2022 TAA

In Exhibit 3 we summarise our 2022 return forecasts by asset class for our downside, base case and upside scenarios. The short-term returns are for the 12-months starting 31 January 2022. Using our scenario-weighted asset class return assumptions, we expect the TAA to deliver a return of +6.2% in 2022, this is the weighted average of the base case estimate of +8.5% (60% probability), an upside case of +12.4% (20% probability), -9.0% in the downside scenario of slower growth (10% probability) or -4.6%[1] in the alternative downside scenario of stagflation (10% probability).

These portfolio return assumptions compare favourably to the expected return of the SAA or a 70/30 mix of Developed Market Equities and Government Bonds. The respective returns are shown in Exhibit 4 below. A 70/30 portfolio is likely to be especially vulnerable to a stagflation scenario, and we estimate it could fall -12.9%. On a scenario probability-weighted basis, we expect our 2022 portfolio to outperform the SAA by 50bps and a 70/30 equity/bond index by over 400bps.

1 Expected returns do not reflect actual results. These expected returns are based primarily upon applying assumptions retroactively to certain historical financial information relating to the investments. Investments involve significant risks. Investors should have the financial ability and willingness to accept the risk characteristics of these investments and must make their own investigations and evaluations before investing. Please see important disclaimers at the end of this material.

Exhibit 2

Estimated look-through portfolio duration exposure by client currency

Asset Class	SAA	TAA	US		UK		Europe	
			Default Benchmark	Duration	Default Benchmark	Duration	Default Benchmark	Duration
Government Bonds	5.0%	0.0%	Barclays Treasury 5-10 Years TR	7.6	FTSE A British Govt All Stocks TR	11.3	Citigroup EMU GBI TR	7.5
Liquid Credit - IG	0.0%	0.0%	Barclays US Corporate BBB	7.5	Barclays Global Corporate BBB	6.4	Barclays Global Corporate BBB	6.4
Liquid Credit -HY	0.0%	0.0%	Barclays US Corporate High Yield TR	4.2	50/50 Barclays Global HY / CS Leveraged Loan	2.4	50/50 Barclays Global HY / CS Leveraged Loan	2.4
Private Debt	5.0%	8.0%	Partners Capital Private Debt Vehicle	1.3	Partners Capital Private Debt Vehicle	1.3	Partners Capital Private Debt Vehicle	1.3
Inflation-Linked Bonds	5.0%	5.0%	Barclays US TIPS TR	7.6	FTSE A (Index Linked) British Govt All Stocks TR	21.8	Barclays Euro Govt Inflation-Linked TR EU	8.0
SAA Weighted Duration				**0.8**		**1.7**		**0.8**
TAA Weighted Duration				**0.5**		**1.2**		**0.5**
Difference				**-0.3**		**-0.5**		**-0.3**

Source: *Barclays, Bloomberg, Partners Capital*

Exhibit 3

Expected 12-month returns by scenario (starting 31 Jan 2022, includes alpha and beta assumptions)[2]

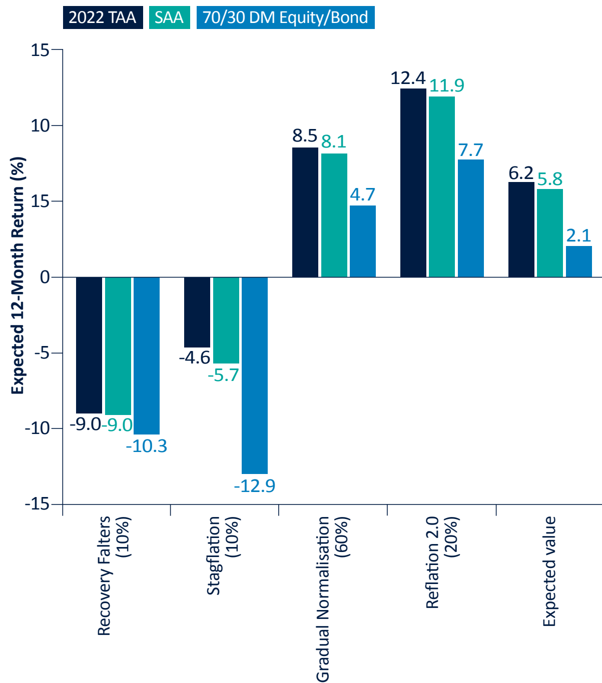
Asset Class	Allocations		Short-Term Return Forecasts				
	SAA	TAA 2022	Downside 1 Recovery Falters (10%)	Downside 2 Stagflation (10%)	Base Case Gradual Normalisation (60%)	Upside Reflation 2.0 (20%)	Short-Term Probability Weighted Return
Cash	1.0%	1.0%	0.6%	1.1%	0.9%	0.9%	**0.9%**
Fixed Income	5.0%	—	9.6%	-12.5%	-3.7%	-8.1%	**-4.1%**
Liquid Credit	—	—	-1.6%	-3.5%	3.0%	4.5%	**2.2%**
Private Debt	5.0%	8.0%	-1.2%	-5.0%	6.8%	9.6%	**5.4%**
Absolute Return	12.0%	14.0%	1.7%	2.7%	4.6%	5.2%	**4.3%**
Hedged Equities	11.0%	13.0%	-7.1%	-4.0%	6.6%	9.7%	**4.8%**
DM Equities	32.0%	27.0%	-17.8%	-12.1%	9.3%	15.5%	**5.7%**
EM Equities	4.0%	5.0%	-18.1%	-9.9%	11.7%	17.4%	**7.7%**
Private Equity	18.0%	18.0%	-12.8%	-7.1%	14.3%	20.5%	**10.7%**
Inflation Linked Bonds	5.0%	5.0%	2.4%	6.4%	-2.5%	-3.9%	**-1.4%**
Gold	—	—	-10.5%	-2.6%	-10.5%	-5.2%	**-8.6%**
Commodities	—	—	-25.0%	20.0%	3.0%	10.0%	**3.3%**
Core Property	—	2.0%	-1.0%	5.0%	6.5%	7.5%	**5.8%**
Private Equity Real Estate	7.0%	7.0%	-3.6%	7.9%	11.1%	13.1%	**9.7%**
Total SAA	100%		(9.0%)	(5.7%)	8.1%	11.9%	**5.8%**
Total TAA		100%	(9.0%)	(4.6%)	8.5%	12.4%	**6.2%**

Note: *All return assumptions are for the 12-months starting 31 January 2022*
Source: *Partners Capital analysis*

2 Expected returns do not reflect actual results. These expected returns are based primarily upon applying assumptions retroactively to certain historical financial information relating to the investments. Investments involve significant risks. Investors should have the financial ability and willingness to accept the risk characteristics of these investments and must make their own investigations and evaluations before investing. Please see important disclaimers at the end of this material.

Exhibit 4

Portfolio returns by scenario, TAA vs. SAA and a 70/30 Equity/Bond benchmark (12-month returns starting 31 Jan 2022)[3]



***Source:** Partners Capital*

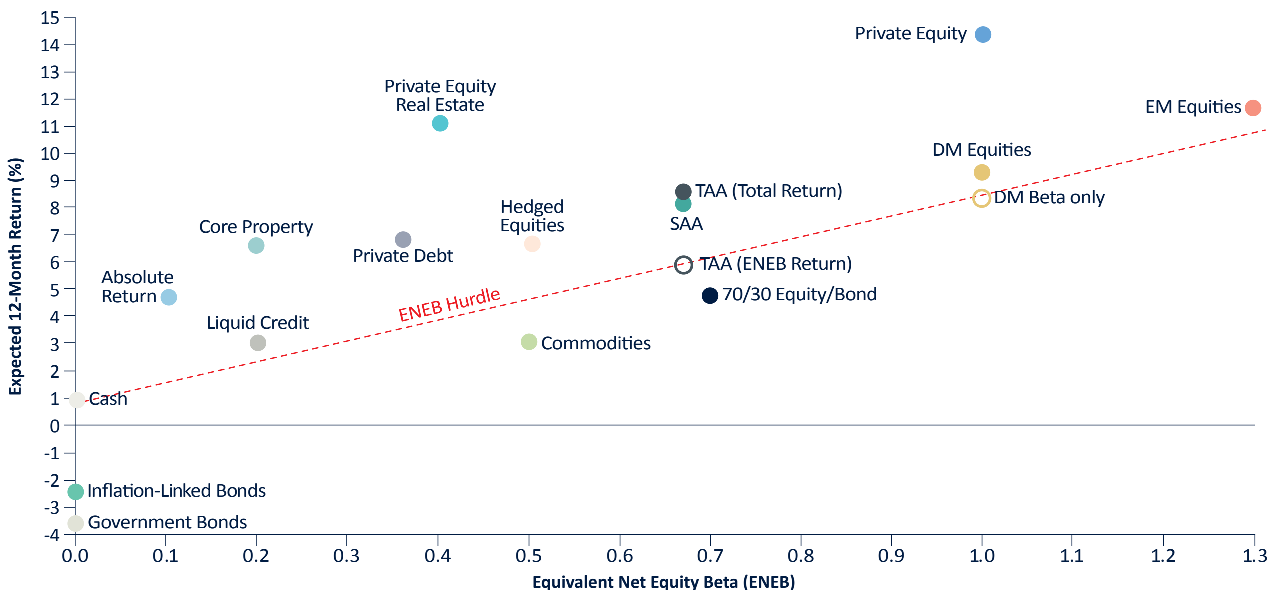
Exhibit 5 maps the base case 12-month return expectation of all asset classes against their ENEB return hurdle. The dotted line shows the ENEB return hurdle for a given amount of equity-like risk. To justify a place in the portfolio, any given asset class must be expected to generate returns above its ENEB hurdle. The further above the line an asset class plots, the better we expect an asset class to perform relative to its risk budget.

This helps illustrate why we continue to recommend a higher allocation to the three illiquid asset classes – private equity real estate, private debt and private equity – all of which are expected to provide an excess return over their equivalent risk budgets (i.e., plot highest over the ENEB hurdle line). Absolute Return plots further above the line than Hedged Equities, which supports our rotation into Absolute Return from Hedged Equities.

At an overall portfolio level, the 2022 TAA base case return of 8.5% provides an excess return of 2.9% over the equivalent ENEB + cash portfolio. This in effect represents the diversification benefit and the expected alpha and illiquidity premium of a multi-asset class portfolio compared to an equivalent risk portfolio comprised solely of equity and cash.

Exhibit 5

Estimated excess return in 2022 versus ENEB hurdle (base case scenario)



***Source:** Partners Capital analysis*

3 Expected returns do not reflect actual results. These expected returns are based primarily upon applying assumptions retroactively to certain historical financial information relating to the investments. Investments involve significant risks. Investors should have the financial ability and willingness to accept the risk characteristics of these investments and must make their own investigations and evaluations before investing. Please see important disclaimers at the end of this material.

Exhibit 6

Partners Capital sub-asset class positioning

Asset Class	Strong Underweight	Moderate Underweight	At Target	Moderate Overweight	Strong Overweight
Cash, Fixed Income, ILBs, Gold, Commodities	— German Bunds — UK Gilts — US Treasuries		— Cash — Inflation-Linked Bonds — Gold — Commodities		
Liquid Credit	— Investment Grade Bonds — IG Munis	— High Yield Bonds — Consumer Lending — CMBS — Mezzanine CLOs	— Leveraged Loans — Short Duration High Yield — EM LC/USD Bonds	— Opportunistic Credit — RMBS — Short Duration lending	
Private Debt and Alternative Alternatives	— EM Direct Lending — Mezzanine Lending	— Insurance — Royalties — Life Settlements — Distressed/ Special Situations	— MM Direct Lending — Real Estate Lending — CLO equity and debt — Litigation Funding	— Asset-backed Lending — Capital Solutions and Rescue Lending — Drug Trial Funding	— Specialty Lending (tech, healthcare)
Absolute Return	— Managed Futures/ CTAs — Reinsurance	— Risk Premia — Event/ Distressed	— Macro/Trading — Fixed Income RV — Credit L/S	— Convertible Arb — Stat Arb — SPACs	— Risk-managed ELS — Merger Arbitrage
Equities	— Emerging Markets (ex-Asia commodity exporters)	— Multi-Sector Generalists — Europe — Defensive	— Quant/Systematic — Concentrated Generalists — Energy — Value	— China — US Small Cap Activist — Cyclicals and Financials — Consumer Specialists — Quality	— Emerging Tech — Life Sciences — Sustainability — Natural Resources
Private Equity	— Emerging Markets (ex-Asia)	— Asia LBO/ Special Situations — Distressed / Turnaround	— Large Cap Buyouts — European Buyouts — Growth Equity — Venture Capital (late stage)	— Lower Mid-Market Buyouts — Venture Capital (early stage)	— Sector Specialists (software, consumer, healthcare, industrials)
Real Estate	— Emerging Markets (ex-Asia)	— Office/Hospitality — Distressed — REITS — Infrastructure	— Asia PERE — UK PERE — European PERE	— Multifamily — Industrial/Logistics — Core Property	— US PERE

Source: *Partners Capital*

Sub-asset class positioning

Tactical Asset Allocation also occurs at a sub-asset class level. Within each asset class, we favour particular strategies or skews. Our asset class summary pages at the end of this publication provide more detail on sub-strategy attractiveness and our 2022 strategic priorities for each asset class. Exhibit 6 summarises our sub-asset class skews across each asset class.

Taxable Client Asset Allocation

All changes discussed above reference our central benchmark policy portfolio for a large non-taxable institutional investor denominated in USD. The direction of these changes will be relevant to our taxable clients as well, but with different starting and ending allocations based on each client's tax situation.

For our tax paying clients, our goal is to maximise expected after-tax results from a multi-asset class portfolio with a relatively high level of certainty. To do this, we have developed the following four Golden Rules of Tax-Efficient Investing:

1. Increase portfolio risk to reflect the dampening effects of taxation
2. Allocate across asset classes based on after-tax returns, volatility and correlations
3. Select asset managers based on a range of after-tax expected returns
4. Utilise tax-efficient structures

The practical implications of the above golden rules will vary depending on the underlying investors' status, location and objectives.

US Taxpayers: To improve the overall tax efficiency of our US taxable portfolios we bias them toward tax advantaged asset classes such as public equities, private equity and real estate. In addition, we consider municipal bonds in place of Treasuries and structured inflation-linked municipal bonds (municipal bonds plus a return swap linked to the Consumer Price Index) in place of traditional inflation-linked bonds. Conversely, we avoid tax-inefficient asset classes with low manager outperformance (alpha) potential such as liquid credit and are highly selective on absolute return and hedged equities. The least tax-efficient asset classes are yield-based including liquid credit, inflation-linked bonds, traditional fixed income (such as Treasuries) and private debt because the income stream is subject to the higher ordinary income tax rates.

UK Taxpayers: Unlike some other European tax regimes, the UK taxes capital gains, dividends and income differently. At the time of writing, UK additional rate tax rates for income, dividends and capital gains respectively are 45%, 38.1% and 20%. Strategies appropriate for non-taxpaying entities such as charitable endowments may not be appropriate for a tax-paying investor and vice versa. It is for this reason that we strongly recommend UK taxpayers invest via our our multi-asset class pooled vehicle is optimised for UK tax investing and structured in a manner that facilitates the offsetting of fees and expenses against income, the roll-up of capital gains within the portfolio and allows income to be taxed at the lower dividend tax rate. As with the US taxpayer portfolio, the allocation is very skewed toward equities given capital gains tax treatment combined with a good menu of reporting status funds. Absolute return hedge funds feature as they provide better after-tax returns than fixed income where we find reporting status funds and/or truly exceptional performers where higher tax treatment is still acceptable.

If you would like further information on optimising your portfolio for after-tax returns, there are recent whitepapers on this subject available on our website. We are also actively monitoring potential tax changes across regions and will let clients know if there are ever any material changes.

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