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CORPORATE SOLUTIONS

GUARANTEED RETURN FUND RANGE
DEPOSIT ADMINISTRATON FUND

STERLING ANNUAL REPORT
2023

ECONOMIC BACK-DROP & MACRO SITUATION

Reviewing the past few years, towards the end of 2021 the Bank of England surprised the markets raising their benchmark “Base Rate”. Prior to this, as a response to the Covid crisis, Central Banks across the globe had cut their benchmark rates, with some actually charging customers to place money with them. In addition, they also printed money and some Governments stimulated their respective economies further with handouts. The Bank of England (BOE)were the first to signal an end to their stimulus package and soon after other Central Banks, including the USA’s Federal Open Market Committee (FOMC), started to follow suit by raising rates in 2022.

With the benefit of hindsight, the stimulus response was too much, which arguably resulted in a massive increase in inflation. Most Central Banks have an inflation target of 2% and at one stage the US saw their inflation rise to over 9%, with the UK’s peaking at just over 11%. The situation in Ukraine disrupted oil, gas and grain supplies, which fuelled inflation to alarming levels. In response to this, the BOE raised interest rates a total of fourteen times in order to calm the pace of inflation. Towards the end half of 2022 we saw inflation eventually start to rise at a slower pace, but throughout 2023 it remained above the BOE’s target level of 2%.

Against this background, the UK unemployment level, which is seen as an indicator of how “healthy” their economy is, remained stable. However, wage negotiations are still elevated and there is a concern that there will be a second wave of inflation. Overall, there is a lack of a clear signal from the BOE, but the key theme is that all Central Banks are no longer talking about raising rates further. The timing of any rate cuts has yet to be determined, but the likelihood in the UK is for the first rate cut to be in the second half of the year.

With inflation at much reduced levels, but still above 2%, unemployment levels stable and global trade normalizing, the BOE have kept interest rates on hold for the moment. However, the market is fearful that the current rate is too restrictive and will eventually cause the UK economy to enter into a recession. It must be noted that 2024 is an election year and the March budget is likely to focus on growing the economy. The last reading of UK economic activity showed the economy shrank by 0.1% in September 2023 and December’s estimates point to a further shrinkage of 0.2%, putting the UK economy into a technical recession. Thus, the UK Governments March budget will be closely watched by investors, as it could set the tone for interest rates for the remainder of the year.

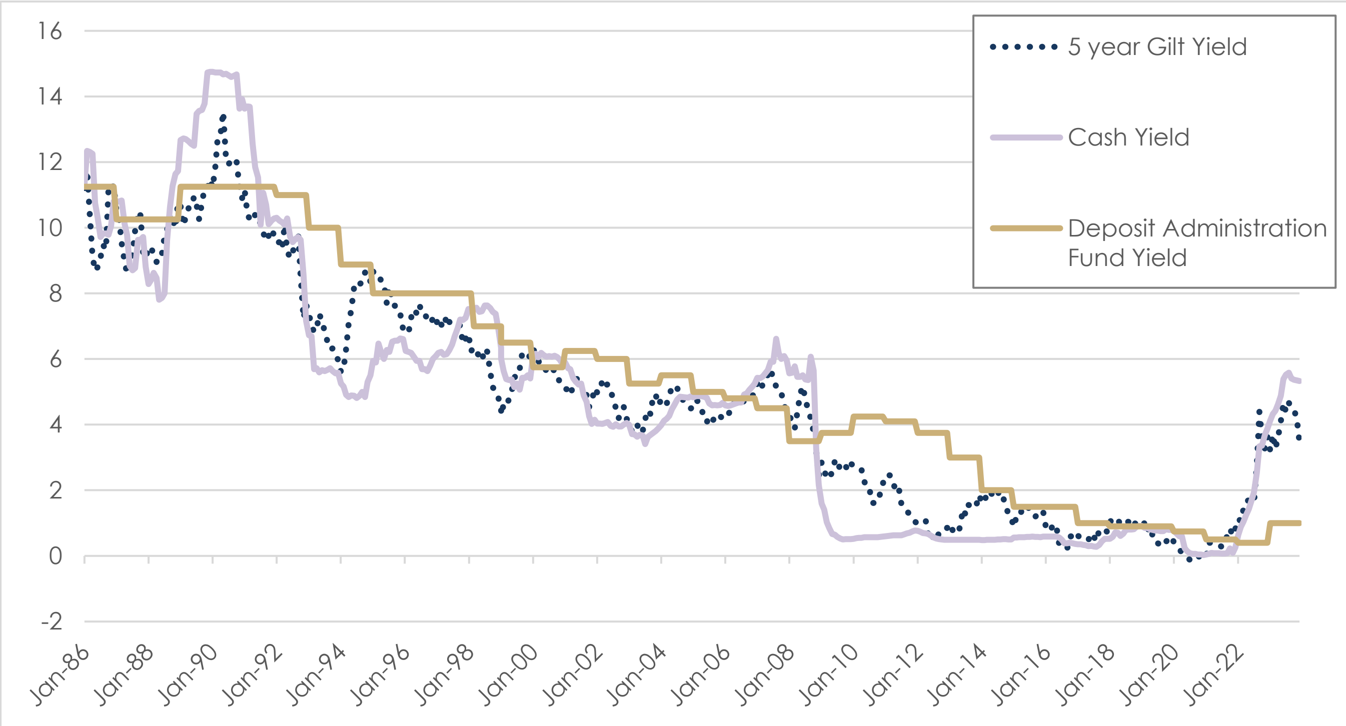
THE STERLING DEPOSIT ADMINISTRATION FUND

In response to the above global events, the Fund reduced risk by reducing the duration of the Portfolio, in an effort to protect the value of the assets in a rising interest rate environment. However, it must be noted that the Deposit Administration fund is designed to smooth returns to its shareholders and so the shareholders did not “experience” the turbulence that sharp increases in BOE’s base rates caused to Fixed Income markets.

The Portfolio was cautiously positioned throughout 2022 and 2023 amid concerns over the potential peak in interest rates. Over the medium term interest rate cuts are inevitable and they will most likely support bond prices as the market adjusts. In expectation of this, we will look to extend portfolio duration and its resultant sensitivity to interest rates. Ahead of these changes we would like to see further signs that inflation is back under control and a reduction in wage pressures. In addition the UK Budget in March may focus on growth before the UK General election. Thus, a period of volatility could ensue and short dated bonds are likely to generate steady returns during this period.

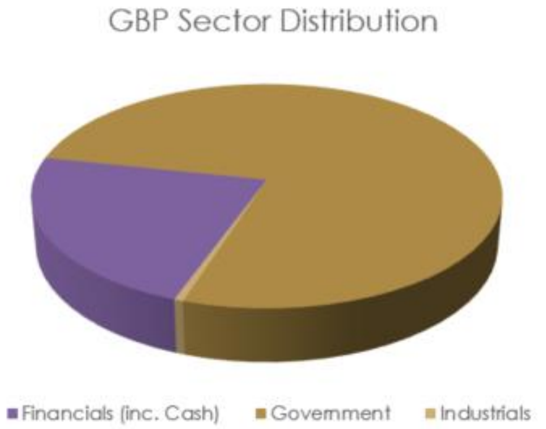
The following chart details the fund's 2023 declared rate of 1%, along with cash rates and 5 year Gilt yields.

PERFORMANCE COMPARISON CHART

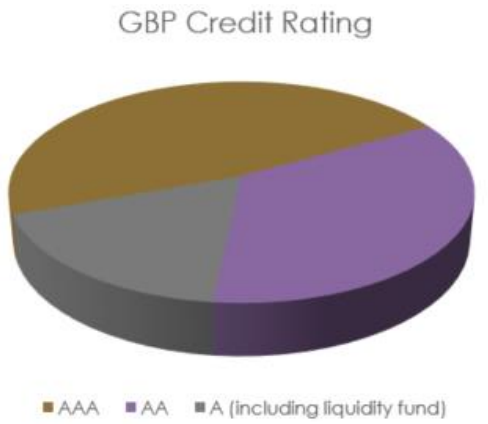


Investments in UK Gilts has been volatile over the 5 year period. Modest gains would have been achieved in the run up to Covid, but then as the world recovered from Covid and interest rates started rising, these gains would have been given back and losses incurred. Towards the end of 2023 investments in UK Gilts would have generated profits, but early 2024 has seen yields once again start to rise.

ASSET DISTRIBUTION BY SECTOR



ASSET DISTRIBUTION BY CREDIT RATING



At the year end the portfolio was 76% allocated to government and government related bonds with the balance in covered bonds, corporate bonds and cash.

A WORLD *of* DIFFERENCE

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