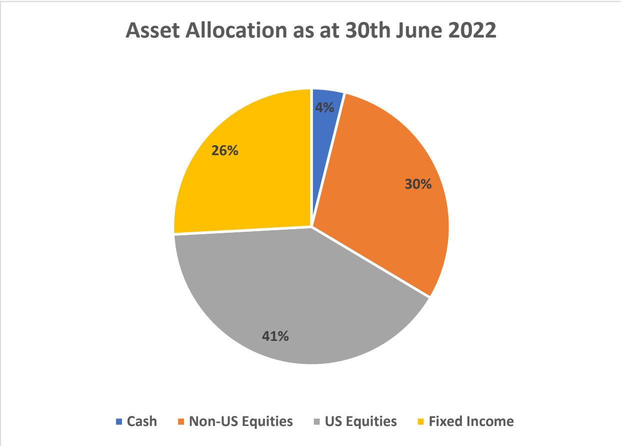
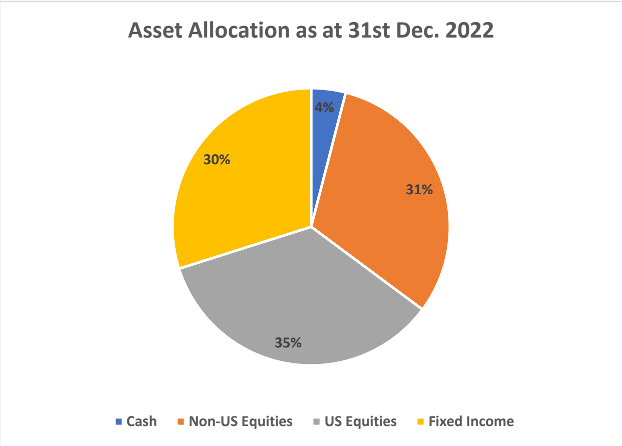
Investment Advisor's Report

31st January 2023

In the six months ended 30th June 2022, the Plan returned -18.09% compared to -16.64% for its benchmark. Over the last 12 months ending 31st December 2022, the Plan returned -15.97% compared to -12.81% for its benchmark. In Q4 2022 the Plan was up 5.93% versus 6.34% for the benchmark. Since inception, the Plan returned 3.02% per annum compared to 4.53% per annum for the benchmark.

The charts below show that the Plan's asset allocation at year-end (30th June) remained near 70% equities and 30% fixed income. In December we executed reallocates that resulted in approximately 5% of the portfolio from US equity exposure to fixed income exposure. At the end of 2022, the asset allocation between non-US equity, US equity, and fixed income was approximately 31%, 35%, and 34%, respectively.





The table below notes the individual asset managers selected by RF and their performance. The fixed income portfolio is managed by Weaver C. Barksdale, the US equity portfolio is managed by Polen Capital, Aristotle Capital Management, Fuller & Thaler Asset Management, and Janus Henderson Global Life Science. The non-US equity portfolio is invested in the OAM Asian Recovery Fund and the OAM European Value Fund.

Grand Cayman Pension Plan
Performance (Net) vs. Benchmark (As at Dec. 31, 2022)

Manager	Strategy	Portfolio	Benchmark	Difference	Comment
Weaver C. Barksdale	USD Fixed Income	-8.42%	-8.23%	-0.19%	In Line
Polen Capital - Large Cap	US Large Cap Growth	-36.55%	-29.14%	-7.41%	Underperformed
Aristotle Value Equity	US Large Cap Value	-14.72%	-7.54%	-7.18%	Underperformed
Fuller & Thaler SC Behav Eq	US Small Cap Value	-7.71%	-20.44%	12.73%	Outperformed
Janus Henderson Global Life Science	Health Care	-1.22%	-5.87%	4.65%	Outperformed
OAM Asian Recovery	Asian Equities	-14.79%	-21.54%	6.75%	Outperformed
OAM European Value	European Equities	-13.03%	-19.17%	6.14%	Outperformed
Grand Cayman Pension Plan		-15.97%	-12.81%	-3.16%	Underperformed

In December on the back of what we consider a bear market rally, we reduced exposure to Polen Capital and Aristotle Value and allocated the proceeds to Fuller & Thaler and U.S. T-bills. In addition to the underperformance of both Polen Capital and Aristotle Value and the outperformance of Fuller & Thaler, at year-end, the most undervalued segment of the U.S. equity market was U.S. small-cap value. This is based on the current P/E multiple versus the 20 average P/E multiple.

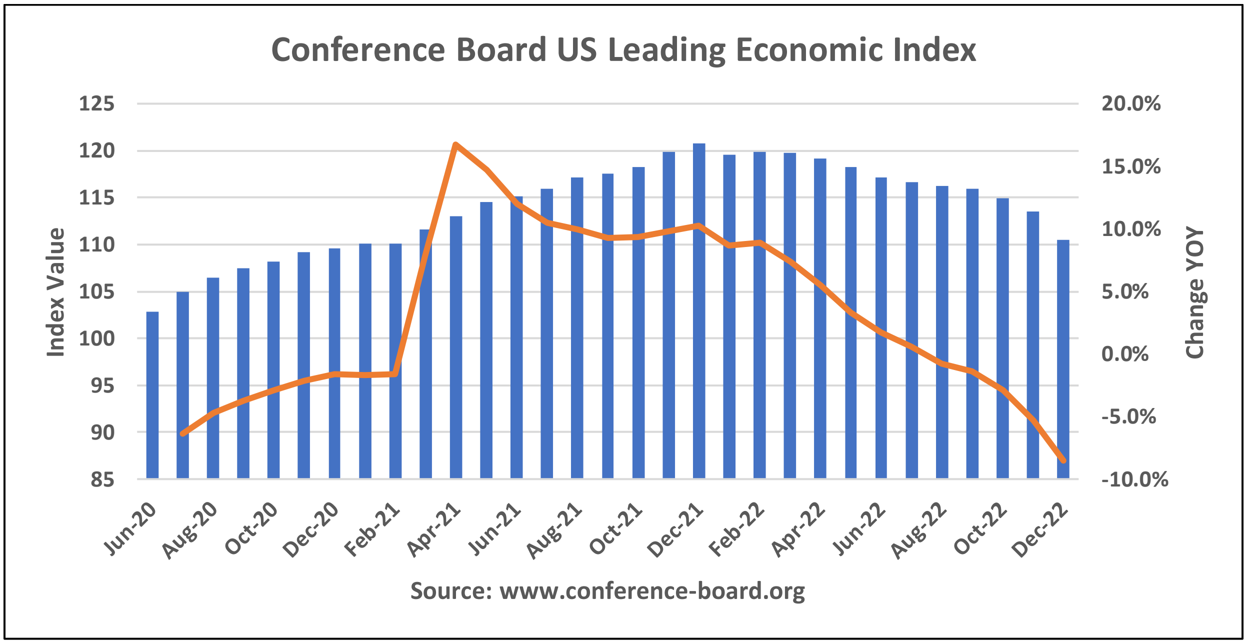
In December we made the following re-allocations:

- Reduced Polen Capital by $1.5 million
- Reduced Aristotle Value by $2.9 million
- Added $3.0 million to Fuller & Thaler
- Invested $3.0 million in excess cash in 3-month and 6-month U.S. T-bills yielding between 4.3% and 4.7%

Based on our analysis we feel the recent equity market recovery is not sustainable. Some bulls feel the upcoming end of Feb hikes, China reopening, declining rate of inflation, and economic soft landing justify the recent equity market rebound. We do not agree. Notably, a China reopening would stimulate oil demand which pushes up the price of oil, which in turn drives inflation. Also, victory over inflation is uncertain even without China reopening. Even if the Fed only raises interest rates another 50 bps in the cycle, rates will likely remain elevated until the Fed feels inflation has been "conquered". In addition, a leading financial institution estimates that around $1.6 trillion of the $2.5 trillion in post-COVID stimulus savings has been spent. With rising interest rates, constraints on fiscal spending, and diminishing savings, the era of easy financial conditions is effectively over.

The chart below shows the Conference Board US Leading Economic Index (the "index") value and YOY change since June 2020. The rate of change YOY turned negative in August 2022 and the rate of decline has accelerated reaching -8.53% in December. The decline in the Index is significant for U.S. equity markets because the S&P 500 Forward 12-Month Earning

Per share is highly correlated with the Index. Currently, the consensus estimate for 2023 S&P 500 earnings is $225, but we feel sub $200 is more probable. This implies a 10%-20% correction in the S&P500.



Our strategy during Q1 2023 is to accumulate cash in short-term T-Bills earning 4.0%-4.25% for reinvestment in equities once the expected market pullback occurs.

David Slatter, CFA