CAPICRAFT

INVESTMENT PARTNERS

WHITE PAPER

Investing Across Regimes

Building portfolios for an uncertain world

A portfolio should not depend on one macroeconomic forecast being right. It should own several independent return drivers, adapt when regimes change, and retain access to explicit protection when ordinary diversification fails.

3 September 2026 | Research and performance data through 31 August 2026

Prepared for independent financial advisers and private clients

Executive summary

Most traditional portfolios are built around a simple relationship: equities provide long-term growth, while high-quality bonds provide protection when growth disappoints. That relationship has often worked well. It should not be mistaken for a universal law of investing.

There are environments in which equities and bonds can decline together. Inflation can undermine both financial assets and conventional diversification. Changes in interest rates, currencies, commodity prices, liquidity and market structure can expose risks that are poorly represented in a traditional balanced portfolio.

> **A portfolio should not be optimised for the future we expect. It should be capable of surviving the futures we do not.**

Capicraft therefore approaches strategic asset allocation from a regime-aware starting point. The objective is not to eliminate risk, nor to outperform in every market. It is to build a portfolio that can accommodate risk, remain investable through difficult periods and compound capital across a wider range of possible futures.

The All Regime model is designed as an investable systematic portfolio, not merely a conceptual asset-allocation diagram. It uses liquid building blocks, rules-based portfolio construction and rebalancing, and capital-efficient diversifying overlays so that the architecture can be implemented within a conventional global fund structure.

The historical evidence is consistent with that objective. Over January 2005-August 2026, the hypothetical All Regime systematic model with long volatility produced an 8.5% annualised USD return at 10.1% volatility, while its month-end maximum drawdown was 18.7% versus 35.8% for global 60/40. Over the actual five-year September 2021-August 2026 record, Creator B returned 14.6% per annum with a 14.7% month-end maximum drawdown, compared with 5.6% and 23.5% respectively for global 60/40. These are different datasets and are not presented as like-for-like product performance.

Evidence snapshot	All Regime + LV	Creator B	Global 60/40
CAGR	8.5%*	14.6%†	6.2%* / 5.6%†
Max drawdown	-18.7%*	-14.7%†	-35.8%* / -23.5%†
Buoyancy example	GFC: 22 mo	2022: 15 mo	GFC: 39 mo | 2022: 29 mo

** Hypothetical systematic model, January 2005-August 2026. † Actual Creator B common period, September 2021-August 2026. Buoyancy = completed month-end observations underwater.*

1. The problem with traditional diversification

The modern 60/40 success story is heavily shaped by the period beginning in the early 1980s. That era started from unusually favourable conditions: nominal bond yields were high after the inflation shock, equity valuations had been reset, and the subsequent disinflation created a long capital gain for duration while lower discount rates supported equity valuations.

Those starting conditions were reinforced by a sequence of powerful tailwinds: the end of the Cold War, deeper globalisation, the migration of manufacturing toward lower-cost Asian labour markets, China's accession to the WTO in 2001, and later an era of unusually low inflation, low policy rates and abundant liquidity. None of these forces makes 60/40 'wrong'. Viewed against the longer historical record, however, the combination was unusually favourable - closer to an exceptional episode than a neutral baseline from which every future regime should be extrapolated.

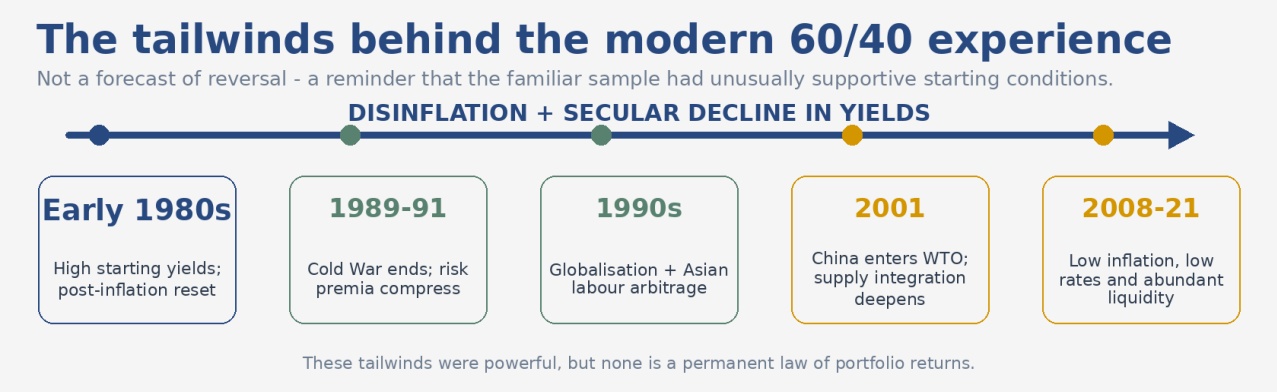

Figure 1. The familiar 60/40 era benefited from several unusually supportive and partly non-repeatable tailwinds.

History contains much less benign outcomes. In Capicraft's 1972-1979 inflation analogue, a conventional global 60/40 returned about 4.5% a year in nominal terms but -3.3% a year in real terms after inflation of 8.1% a year. Longer international histories also show that long horizons can be lean: a Japanese 60/40 earned only about 2.0% a year in real, inflation-adjusted terms over 1990-2022.

1972-1979 INFLATION SHOCK	1990-2022 JAPAN
60/40: +4.5% nominal p.a.	60/40: +2.0% p.a. real
-3.3% real p.a. after inflation	(inflation-adjusted)

The timing also matters for investment orthodoxy. CFA Institute notes that institutional investors increasingly adopted 60/40 strategic allocations in the 1980s. In parallel, U.S. mutual fund assets grew from roughly $135 billion at the start of 1980 to about $6.8 trillion by early 2000. Much of today's benchmark culture, product architecture and professional experience was therefore built while the benign regime itself was unfolding.

It is therefore unsurprising that many mainstream portfolios are rich in equity beta and duration, but relatively light on explicit inflation and real-asset exposure, diversifiers and alternative risk premia, systematic trend and convexity.

Historical context sources: CFA Institute Research & Policy Center / Monash Centre for Financial Studies; CFA Institute institutional portfolio management; Investment Company Institute; WTO; Capicraft calculations. "Real" returns in this section are explicitly inflation-adjusted; other performance figures in the paper are nominal unless stated otherwise.

Diversification by label can still hide the same risk

The historical problem is compounded by a structural one: a portfolio containing many securities is not necessarily well diversified. The more important question is what economic risks those securities are actually exposed to. A large collection of funds can still represent one dominant bet on growth, benign inflation and falling or stable discount rates.

Equities generally benefit from economic growth and expanding corporate earnings. Property retains meaningful exposure to activity, financing conditions and interest rates. Corporate credit depends on both the credit cycle and underlying economic growth. Even government bonds - traditionally the principal diversifier of equity risk - do not provide protection under all circumstances.

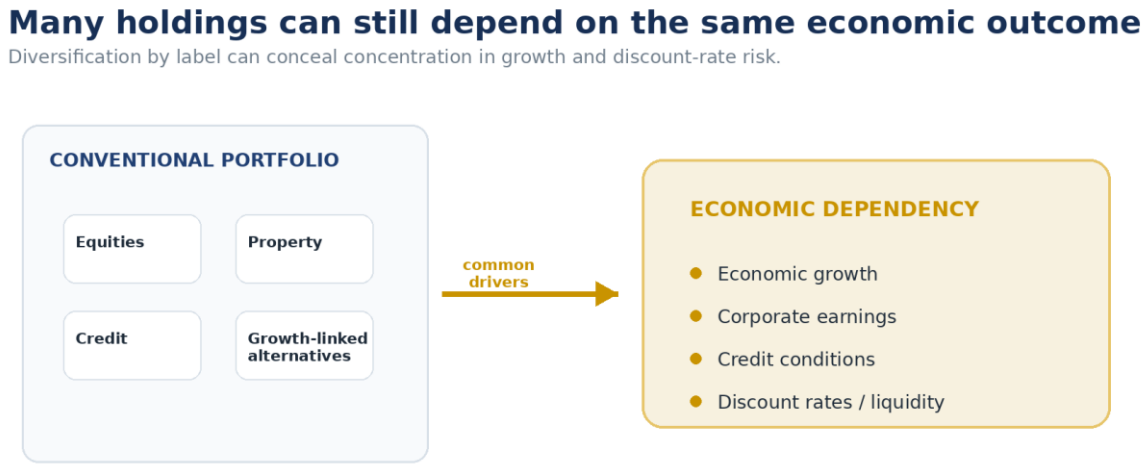

Figure 2. Diversification by label can still leave a portfolio concentrated in common economic drivers.

When inflation is contained and growth deteriorates, falling interest rates can allow bonds to offset equity losses effectively. When inflation itself is the problem, that relationship can change. The 2022 inflation shock was a recent reminder that equities and conventional bonds can experience substantial losses at the same time.

> **Design principle: diversification should be measured by exposure to economic drivers, not merely by the number of funds or asset-class labels in a portfolio.**

2. Start with economic regimes, not asset classes

The All Regime approach begins with two broad variables: the direction of economic growth and the direction of inflation. Together they create four useful conceptual environments. Real economies are more complicated, and markets often move before the economic data confirms a regime change. The regime map is therefore a portfolio-design tool, not a forecasting model.

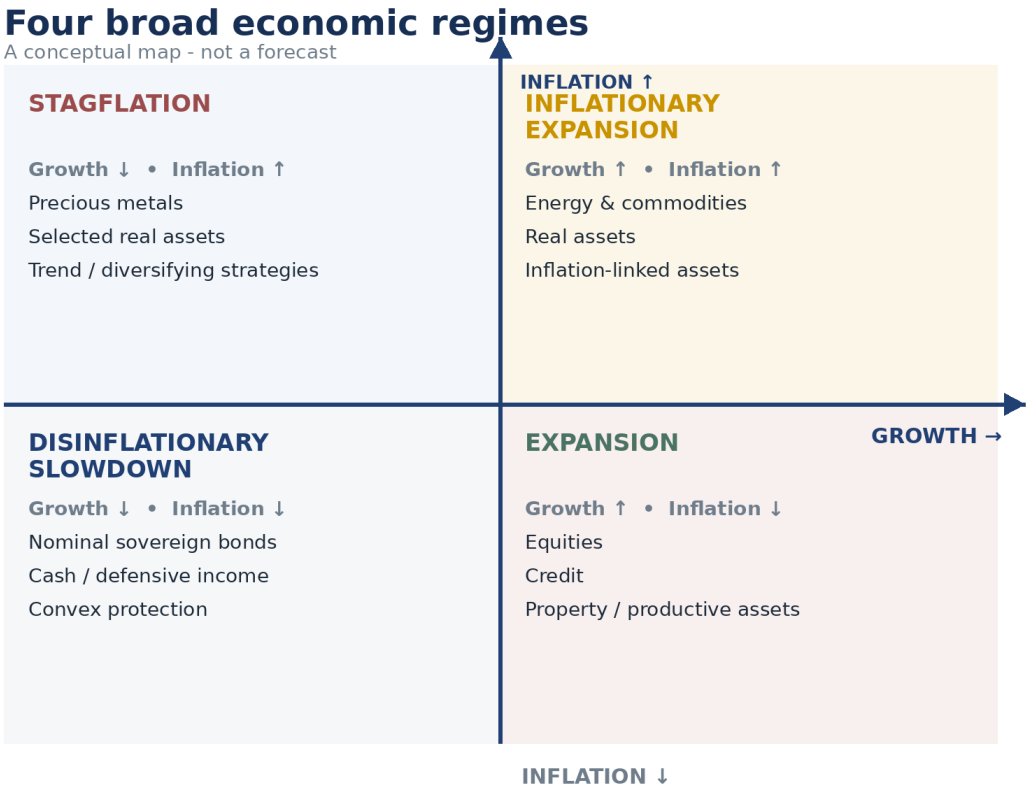

Figure 3. Four broad economic regimes and examples of assets or strategies that may be favoured. Asset behaviour still depends on valuation, starting yields and the cause of the shock.

The question is not which quadrant we can predict next. It is whether the portfolio has credible sources of return if the future differs materially from the recent past.

> **If the future is different from the recent past, what else do we own?**

3. Diversify by function

Rather than thinking only in asset-class labels, we consider the function each exposure performs inside the total portfolio. This makes hidden concentrations easier to identify and gives each allocation a reason to exist.

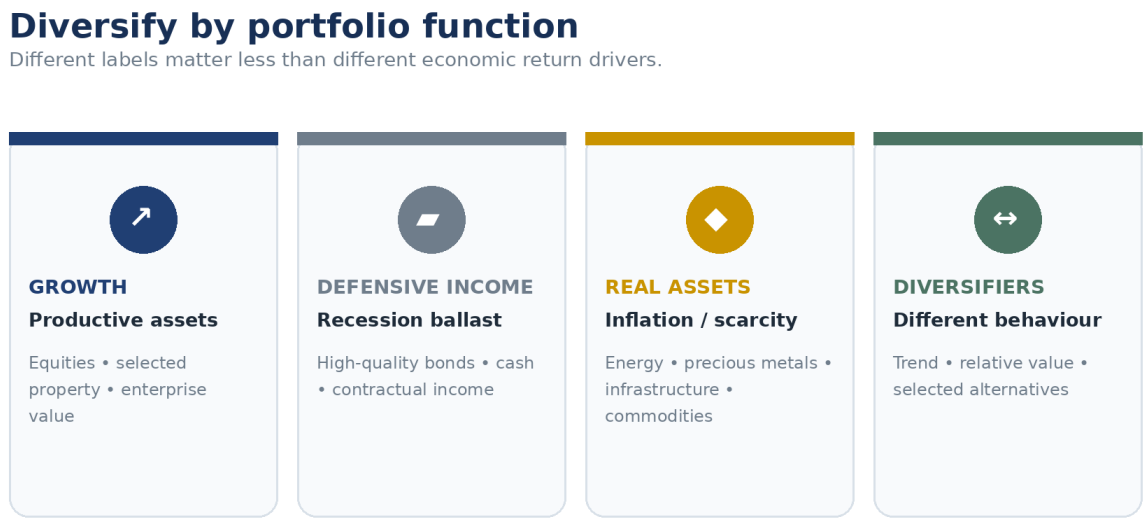

Figure 4. Four broad portfolio functions: growth, defensive income, real assets and diversifying strategies.

- Growth remains essential: productive assets remain core long-term return generators, but they should not be responsible for virtually all portfolio return.
- Defensive income is conditional: high-quality fixed income can provide cash flow, liquidity and recession protection, but remains sensitive to inflation and starting yields.
- Real assets introduce different economics: precious metals, energy, infrastructure and commodities add return drivers linked to scarcity, replacement cost and monetary conditions.
- Diversifiers earn their place at portfolio level: trend, relative value and selected alternatives can contribute returns less dependent on growth and discount-rate outcomes.

4. Trend and convexity solve different problems

Static diversification accepts that we cannot reliably forecast the next regime. But even a well-diversified starting portfolio can be wrong. Trend and convexity add two different forms of adaptation.

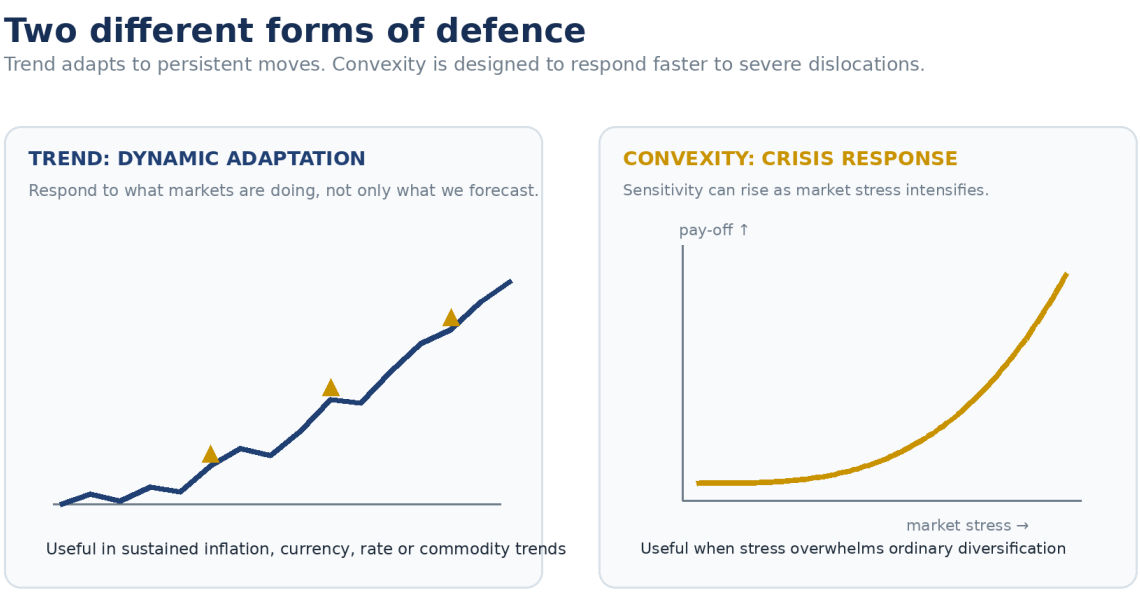

Figure 5. Trend is a medium-term adaptive process; convex protection is designed for speed and severity.

Why trend matters

Markets can move much further than conventional valuation models initially suggest. Inflation can persist, currencies can trend, interest rates can move through levels previously regarded as unlikely and commodity shortages can deepen. Systematic trend-following seeks to respond to persistent price movements rather than requiring the investor to forecast their fundamental cause in advance.

Trend is not a hedge that works continuously. False signals and reversals can create difficult periods. Its value should be assessed in combination with the rest of the portfolio.

Why convexity matters

Large drawdowns can cause behavioural errors, forced selling and an inability to rebalance. Convex exposures are intended to become more responsive as stress becomes more severe. They are not designed to insure every ordinary fluctuation; insurance has a cost. Their role is to add a different source of behaviour in severe dislocations.

5. Static diversification + dynamic adaptation + convexity

The philosophy can be reduced to three layers, each addressing a different weakness in conventional portfolio construction.

Layer	Failure mode	Portfolio response
STATIC DIVERSIFICATION	What if our macro forecast is wrong?	Own assets with genuinely different economic drivers.
DYNAMIC ADAPTATION	What if the portfolio is initially wrong?	Allow selected strategies to change exposure as persistent trends emerge.
CONVEX PROTECTION	What if markets move too quickly or violently?	Maintain exposure capable of responding disproportionately to extreme stress.

No layer is expected to win in every environment. The purpose is for different components to assume responsibility for diversification under different circumstances.

6. What the evidence suggests

Historical evidence cannot tell us exactly how the next crisis will unfold. It can test whether a portfolio has been exposed to several genuinely different sources of return when the dominant traditional assets struggled.

Metric	All Regime + long vol	All Regime, no long vol	Global 60/40
CAGR	8.5%	8.9%	6.2%
Annual volatility	10.1%	10.5%	10.4%
Sharpe ratio	0.69	0.70	0.47
Maximum drawdown (month-end)	-18.7%	-28.1%	-35.8%
Maximum drawdown (daily reconstruction)	-21.4%	-34.0%	-38.9%
Worst month	-8.9%	-12.7%	-12.5%
Beta to global equity	0.40	0.62	0.68
Correlation to global equity	0.59	0.89	0.98
Ending value of USD 100	USD 584	USD 640	USD 367

Monthly statistics use USD total-return proxies and monthly rebalancing through August 2026. The April-August 2026 extension uses month-end live/public proxy returns; the separate reconstructed daily risk path remains through March 2026. Hypothetical backtest; not actual fund performance.

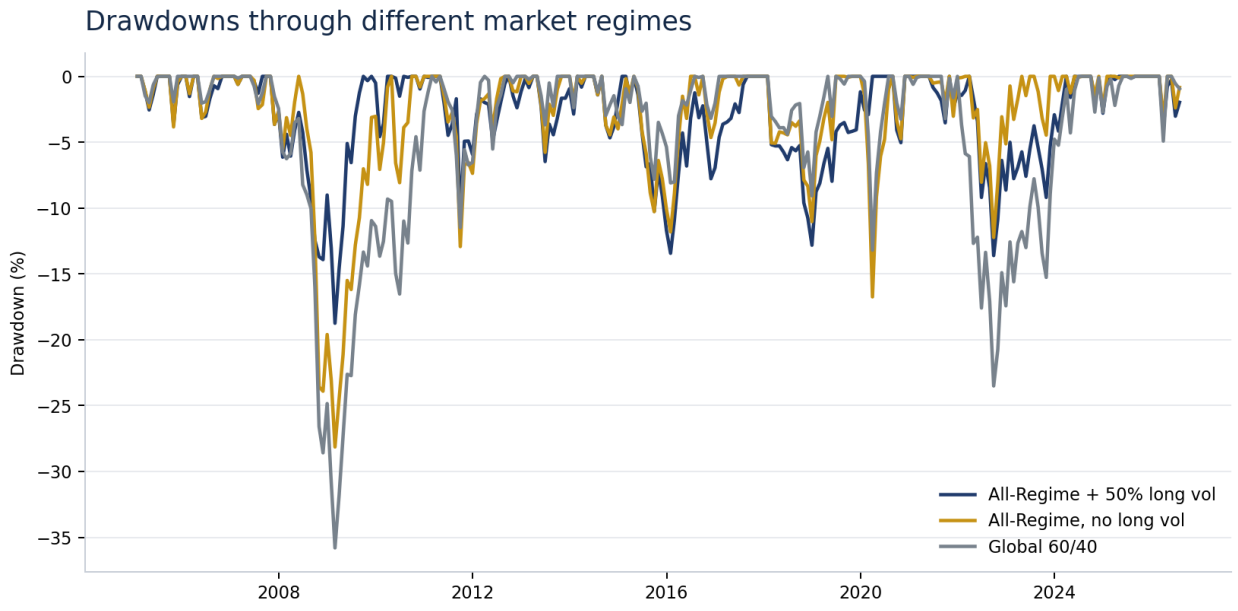

Figure 7. Daily reconstructed drawdowns, January 2005-March 2026. The chart is intentionally uncluttered; exact crisis depths and recovery dates are shown in the tables that follow.

6. What the evidence suggests (continued)

Long-term compounding

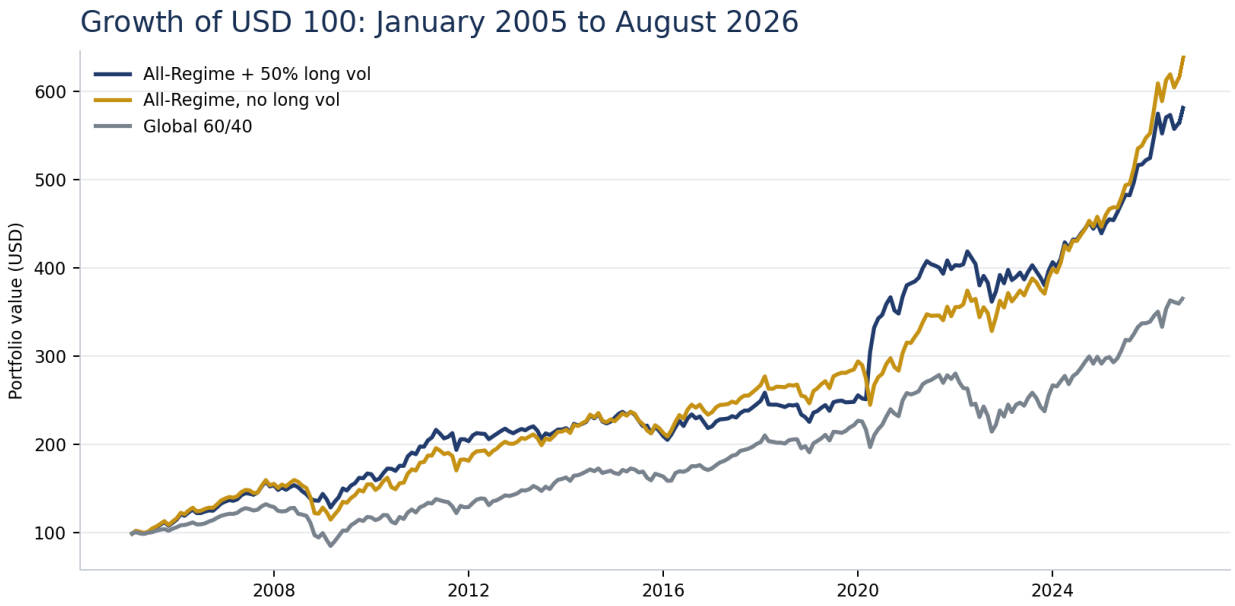

Figure 8. Growth of USD 100, January 2005-August 2026. Hypothetical monthly-rebalanced systematic models versus global 60/40.

An investable systematic architecture

The evidence is intended to describe a repeatable portfolio process, not a purely conceptual allocation assembled after the fact. The All Regime model is designed for implementation inside a conventional global fund structure using liquid listed securities, regulated funds and appropriately diligenced capital-efficient instruments, with rules-based rebalancing and explicit portfolio roles.

That does not make the backtest live fund performance: instrument choice, fees, liquidity, tax, counterparty terms and product design can all change realised outcomes. It does mean the architecture is intended to be systematic and investable rather than merely illustrative.

Different crises, different diversifiers

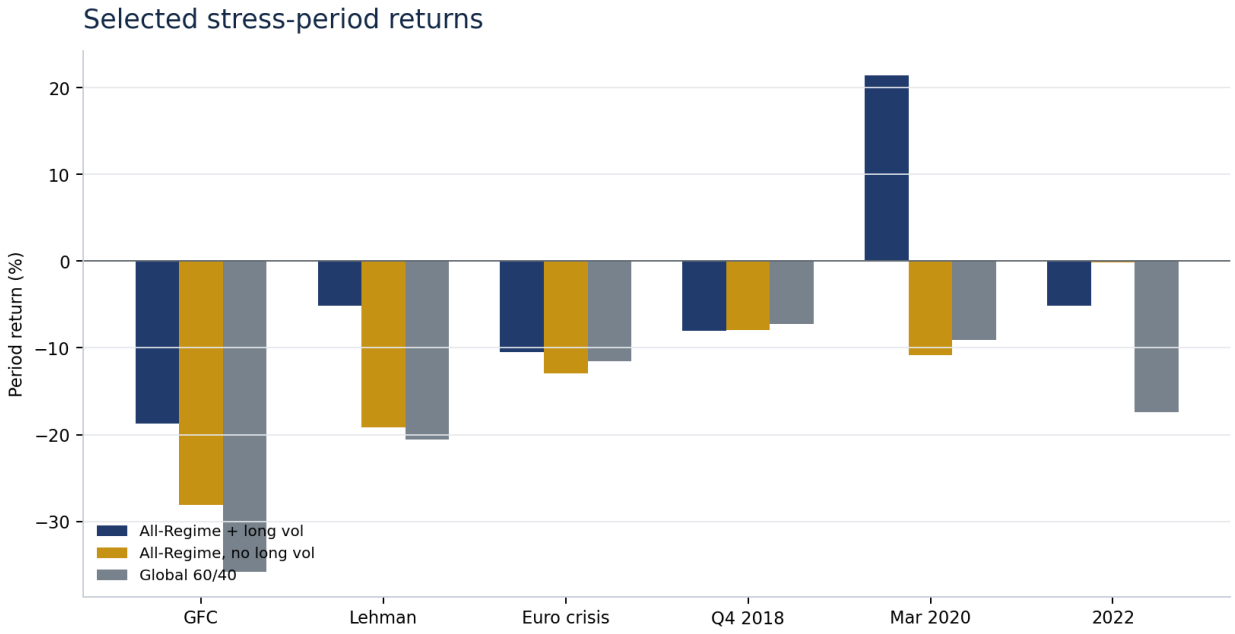

Figure 9. Selected stress-period returns across different market shocks.

Stress periods: diversification is not uniform

The systematic portfolio was most helpful when equities and bonds suffered from a shared shock. It was less helpful in every ordinary equity correction. The table below shows month-end period returns rather than drawdown from a prior high; the distinction matters.

Month-end stress period	All Regime + long vol	All Regime, no long vol	Global 60/40
GFC peak-to-trough	-18.7%	-28.1%	-35.8%
Lehman phase	-5.1%	-19.2%	-20.6%
Euro crisis	-10.5%	-12.9%	-11.5%
Q4 2018	-8.0%	-7.9%	-7.2%
March 2020	+21.4%	-10.8%	-9.1%
Calendar 2022	-5.1%	-0.1%	-17.4%

Source: Capicraft calculations using month-end returns. Period definitions and methodology are maintained in the internal research record.

> March 2020 should not be extrapolated. The option-index proxy produced an unusually large positive return, demonstrating potential convexity but also material product-design and path dependence.

How to read the stress periods

GFC / Lehman: convexity mattered most in abrupt systemic stress. **Euro crisis / Q4 2018:** ordinary corrections can hit several diversifiers together. **2022:** inflation/trend helped when equities and bonds fell together; crash insurance still carried.

7. The 1970s inflation regime: a transparent analogue

The modern model begins in 2005, so it does not contain the long inflationary stress that preceded the great disinflation. The 1970s matter because they show what can happen when the two traditional engines of a 60/40 portfolio - equities and nominal bonds - are both challenged by persistent inflation, rising discount rates and repeated supply shocks.

We therefore use 1972-1979 as a regime analogue rather than pretending that a modern All Regime product existed at the time. Observed historical asset returns are combined with explicit substitutes for modern exposures that did not then exist in their current form, including catastrophe bonds, liquid alternative risk premia, systematic trend products and long-volatility structures. The exercise tests economic design, not decimal-precise historical replication.

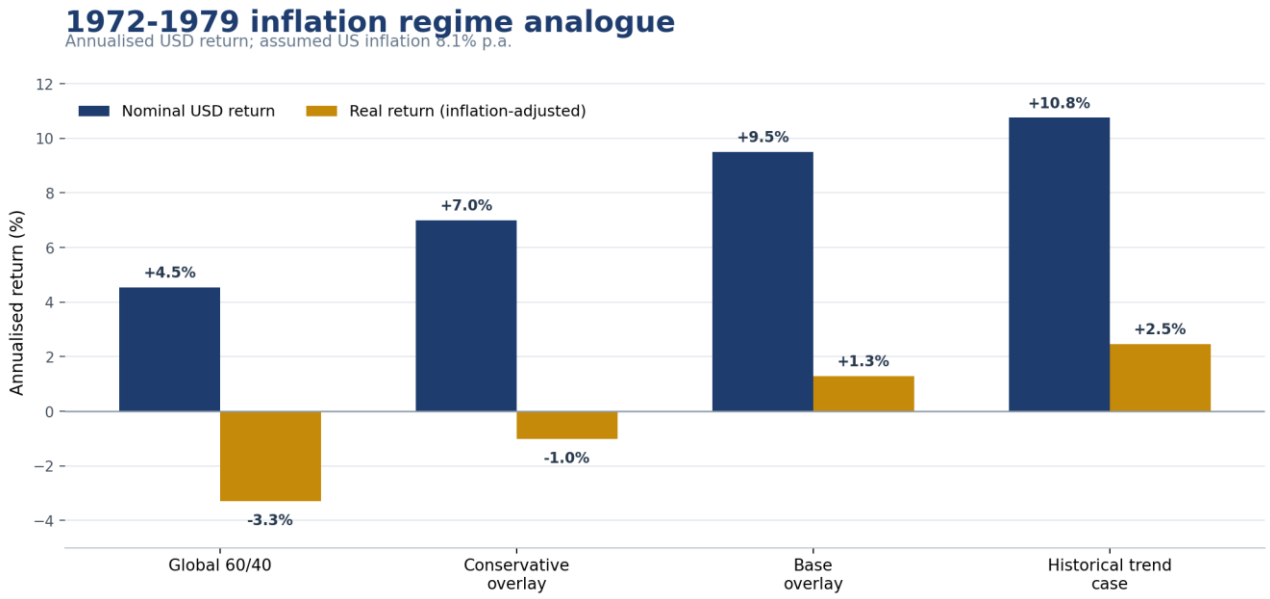

Figure 10. 1972-1979 inflation-regime analogue. Annualised USD returns. Real returns are inflation-adjusted using assumed US inflation of 8.1% p.a. The analogue combines observed history with explicit substitutes and is not an investable historical track record.

> **What the analogue says:** global 60/40 produced about 4.5% nominal p.a., but roughly -3.3% real (inflation-adjusted). The base All Regime analogue produced about 9.5% nominal and +1.3% real, while the historical-trend case reached about +2.5% real. The point is not that every sleeve wins: real assets, diversifiers / alternative risk premia and adaptive trend provide return drivers that do not depend on nominal bonds doing the defensive work.

Interpretation matters: the 1970s analogue is deliberately transparent about synthetic assumptions. It should be used to test whether the portfolio architecture points in the right direction under sustained inflation, not as a claim of realised historical performance.

8. Buoyancy and recovery: how long capital stays underwater

Maximum drawdown answers how far capital fell. Buoyancy answers how long an investor remained below the previous high. We define buoyancy as the number of completed month-end observations below the prior all-time high, excluding the peak month and the month in which that high is regained. For client behaviour and real-world advice, the waiting period can matter as much as the depth of the loss.

Monthly buoyancy event	Creator B	All Regime + LV	All Regime no LV	Global 60/40
GFC	n/a	-18.7% / 22 mo	-28.1% / 22 mo	-35.8% / 39 mo
COVID	n/a	No new period*	-16.7% / 7 mo	-13.2% / 6 mo
2022 inflation shock	-14.7% / 15 mo	-13.6% / 23 mo	-12.2% / 12 mo	-23.5% / 29 mo

*Each entry shows month-end maximum drawdown / completed months underwater. Creator B is included only where an actual record exists. *The insured model entered COVID below its January 2018 high; March 2020 moved it directly to a new high, so COVID did not create a separate monthly underwater episode.*

Two client-relevant examples: during the GFC the All Regime variants spent 22 completed months underwater versus 39 months for global 60/40; during the 2022 inflation shock Creator B spent 15 months underwater versus 29 months for global 60/40.

Daily crisis depth and recovery timing

The daily reconstruction provides a complementary lens. Each cell below shows the deepest daily drawdown observed in the crisis window, measured from the strategy's prior daily all-time high, followed by the date that high was regained.

Daily crisis window	All Regime + long vol	All Regime, no long vol	Global 60/40
GFC	-21.4% | 8 Sep 2009	-34.0% | 9 Apr 2010	-38.9% | 8 Feb 2011
COVID-19	-6.2% | 24 Mar 2020	-25.4% | 17 Aug 2020	-22.6% | 21 Jul 2020
2022 inflation shock	-15.4% | 27 Mar 2024	-13.3% | 15 Jun 2023	-24.6% | 15 May 2024

Daily recovery dates are not the definition of buoyancy. The long-volatility COVID result is unusually sensitive to the option-index proxy and should not be extrapolated.

The daily lens reinforces the central trade-off: long volatility materially softened abrupt GFC and COVID losses and accelerated recovery, while the no-long-volatility comparator recovered sooner after the slower 2022 inflation shock. Protection is designed for crash resilience, not automatic leadership in every drawdown.

9. From systematic All Regime portfolio to Global Creator

All Regime is the investable systematic anchor; Global Creator is the active expression. The systematic portfolio makes the range of economic risks explicit and repeatable through rules-based construction and rebalancing. Creator can then depart from that anchor through valuation, positioning, security selection, gross and net exposure, and the cost of protection. It is therefore not a static balanced fund built to mirror fixed weights: it is a global multi-asset strategy designed to compound across regimes while being willing to look materially different from the systematic portfolio when the opportunity set demands it.

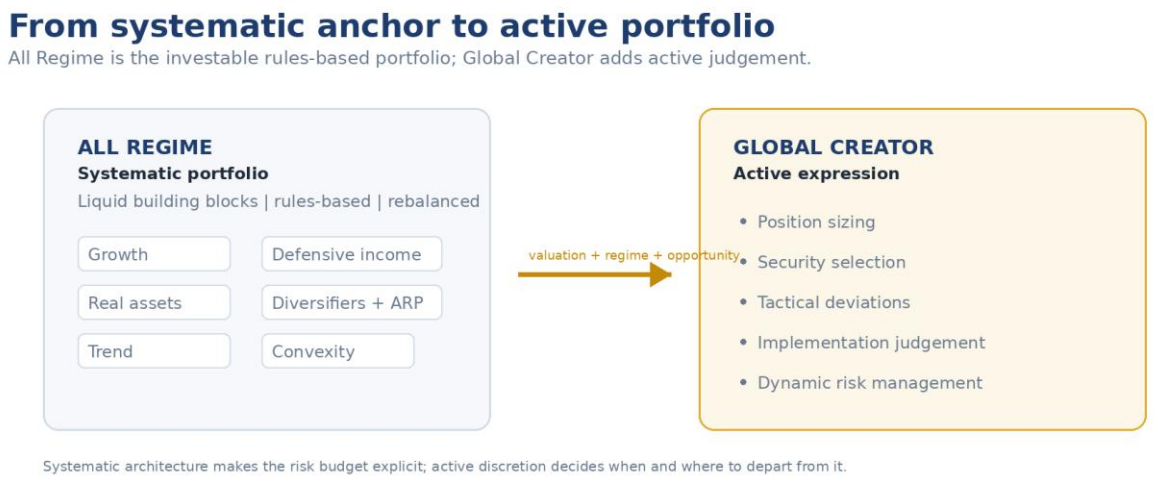

Figure 11. All Regime is the investable systematic anchor; Global Creator applies active judgement around it.

For an adviser, that distinction matters. Creator is intended to function as a broad offshore building block rather than a narrow satellite exposure: it can combine global growth assets, real assets and diversifying strategies inside one actively managed portfolio, while retaining the ability to reduce unattractive beta or increase protection when the balance of risk changes.

Creator B: common-period comparison

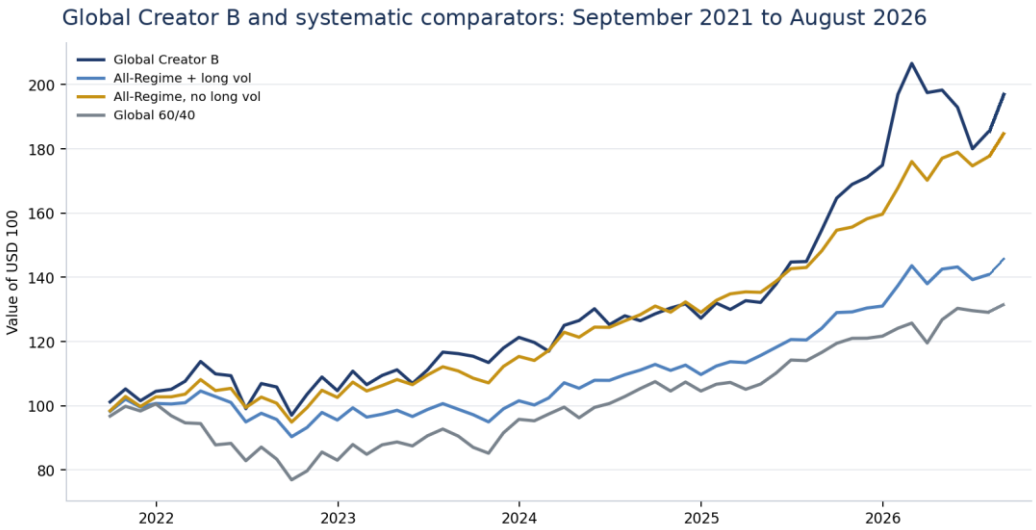

Figure 12. Creator B and systematic comparators, September 2021-August 2026.

Metric	Creator B	All Regime + LV	All Regime no LV	Global 60/40
Total return	+97.4%	+45.9%	+85.0%	+31.5%
CAGR	14.6%	7.9%	13.1%	5.6%
Annual volatility	14.4%	9.1%	9.6%	11.7%
Sharpe ratio vs cash	0.78	0.50	0.97	0.23
Maximum drawdown (month-end)	-14.7%	-13.6%	-12.2%	-23.5%
Ending value of USD 100	USD 197.4	USD 145.9	USD 185.0	USD 131.5
2026 Jan-Aug return	+12.9%	+11.3%	+15.9%	+8.1%

Source: Capicraft. Creator B: actual USD performance; no management or performance fee, but after transaction, administration and other fund expenses. Systematic comparators: hypothetical monthly-rebalanced calculations. Common period: September 2021-August 2026; 60 monthly observations.

The realised record is economically meaningful. Over the five-year common period Creator B compounded at 14.6% per annum versus 5.6% for global 60/40; USD 100 grew to USD 197.4 versus USD 131.5. Creator B returned 12.9% over January-August 2026, compared with 8.1% for global 60/40. Its month-end maximum drawdown was 14.7% versus 23.5% for 60/40. Creator did realise more volatility than the systematic models. After a 6.74% gain in August, it ended the month about 4.4% below its February 2026 high, having recovered materially from the June low. The point is not that discretion removes risk; it is that a systematic anchor can be combined with active risk-taking when valuation, regime and security-level opportunity justify it.

What Global Creator adds

Source of flexibility	What it contributes
Regime awareness	Adjusts exposure when inflation, growth, liquidity or policy conditions change materially.
Valuation awareness	Avoids treating an attractive asset class as attractive at any price.
Position awareness	Considers crowding, correlations, embedded factor risk, liquidity and existing portfolio concentrations.
Security selection	Adds idiosyncratic return opportunities that cannot be captured by broad beta alone.
Dynamic risk management	Can alter hedge structure, trend implementation and gross or net exposure as the opportunity set changes.
Implementation judgement	Chooses among available structures based on cost, liquidity, tax and counterparty terms.

These are potential sources of value, not guaranteed alpha. Discretion can also detract when judgements are wrong.

> The strategic framework makes the portfolio explainable; Global Creator adds judgement. Flexibility without an anchor becomes drift. An anchor without flexibility becomes dogma.

Why this matters in a client portfolio

Many offshore building blocks are dominated by a single source of risk: global equity beta, duration, or a narrow alternative return stream. Creator is designed to integrate several of these functions inside one decision process. It can own productive businesses when expected returns are attractive, but it can also shift risk toward real assets, diversifiers or protection when the regime, valuation or existing portfolio concentration changes.

Portfolio characteristic	Practical implication
Broad return toolkit	Not forced to rely on one asset class or macroeconomic outcome.
Active risk allocation	Exposure can change with valuation, positioning or opportunity.
Security-level discretion	Idiosyncratic opportunities can complement broad allocation decisions.
Explicit strategic anchor	Deviations remain measurable against a coherent long-term framework.

Creator is therefore not simply the systematic All Regime portfolio with an active label. It is the active portfolio built around the same underlying problem: how to compound capital when the next regime is uncertain.

10. There is no free lunch

A diversified portfolio will almost inevitably underperform whichever asset happens to be the best-performing asset of a particular decade. If global equities experience a long, uninterrupted bull market, assets held for inflation protection, crisis resilience or diversification can appear unnecessary.

Exposure	Trade-off
Trend-following	Can suffer in directionless or rapidly reversing markets.
Convex protection	Carries an explicit or implicit insurance cost.
Real assets	Can be volatile and valuation-sensitive.
Fixed income	Remains exposed to inflation and interest-rate risk.
Alternative strategies	Introduce implementation, manager, liquidity and basis risks.
Broad diversification	Can lag concentrated growth portfolios in benign regimes.

This is not a flaw in the portfolio design. It is the price of avoiding dependence on a single outcome. The relevant question is not whether every component outperforms, but whether each component earns its place by improving the range of possible total-portfolio outcomes.

> **The objective is not low volatility for its own sake. The objective is better compounding through changing environments.**

What we deliberately do not disclose here

- Exact systematic target weights and implementation budgets.
- Proprietary trend signals, rebalance rules and model parameters.
- Long-volatility construction, instrument selection and protection triggers.
- Position-sizing, security-selection and tactical decision rules used in Global Creator.
- Manager selection and trade implementation techniques.

Those details belong in Capicraft's internal investment paper and due-diligence process, not in a public-facing explanation of the philosophy.

11. The objective: better compounding

The purpose of diversification is sometimes described as reducing volatility. We regard that definition as too narrow. The deeper objective is to improve the investor's ability to compound capital through changing environments.

- Avoiding severe permanent losses matters.
- Maintaining liquidity matters.
- Being able to rebalance matters.
- Remaining invested matters.
- Having sources of return that do not all depend on the same economic outcome matters.

We cannot know with confidence whether the coming decade will resemble the 2010s, the 1970s, a post-war financial-repression environment or something investors have not yet experienced. A successful portfolio should not require us to know.

> **Do not optimise a portfolio for the future you expect. Build one capable of surviving the futures you do not.**

A changing investment backdrop

Debt levels are high. Geopolitical relationships and supply chains are changing. Demographic pressures are increasing. Investment in several real-economy industries has been constrained for extended periods. These forces do not tell us precisely what markets will do next. They reinforce the case for humility.

Capicraft's response is not to attempt increasingly precise forecasts. It is to build portfolios around a wider set of possibilities: diversify economically, adapt when markets change, retain access to convexity and judge every investment by what it contributes to the total portfolio.

INVESTING ACROSS REGIMES

Diversify economically. Adapt dynamically. Protect against extremes.

Important information

This document is issued by Capicraft Investment Partners, an authorised financial services provider (FSP 46098), for general information and research discussion. It is not personal financial advice, a recommendation to transact, an offer, or a solicitation in respect of any security, fund or financial product.

The All Regime systematic portfolio is described at a high level and does not disclose Capicraft's proprietary models, signals, position-sizing, detailed target weights or implementation techniques.

Historical modelled or backtested results are hypothetical unless explicitly identified otherwise and are subject to limitations including hindsight, proxy selection, data availability, rebalancing and implementation assumptions.

Systematic model statistics use monthly USD proxy returns through August 2026 and monthly rebalancing. The April-August 2026 extension uses month-end live/public proxies. Unless explicitly labelled real or inflation-adjusted, returns are nominal; real means after inflation. Daily reconstructed drawdowns and recovery dates run through March 2026. Buoyancy uses completed month-end observations underwater and is separate from daily recovery timing. These model results are hypothetical, not actual fund performance.

Global Creator B figures are actual returns over the stated period with no management or performance fee, but after transaction, administration and other fund expenses. Official administrator reporting remains the authoritative performance source.

Past performance, whether actual or hypothetical, is not a reliable indicator of future results. Investment values can rise or fall and investors may receive less than the amount originally invested.

Research snapshot used in this paper

Item	Treatment
Systematic model period	January 2005-August 2026; monthly USD proxies and monthly rebalancing. April-August 2026 uses month-end live/public proxies.
Daily risk reconstruction	January 2005-March 2026.
Creator B common period	September 2021-August 2026; 60 monthly observations (five years).
Model costs	No portfolio-level fee, tax, bid-offer spread, market impact or rebalancing cost.