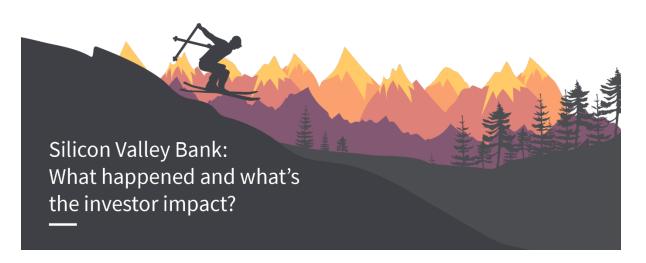
## WH IRELAND



With it now consigned to the history books as the largest US bank failure since 2008, this time last week very few outside of the technology or cryptocurrency sectors had heard of Silicon Valley Bank. This is because its client base was predominantly early-stage businesses in these sectors, many of which were non-profitable and cash starved as fundraising had dried up over the last 18 months following rises in interest rates.

SVB, as it is more commonly referred to, collapsed after it was announced on Wednesday that the bank had locked in several billion dollars of losses in order to meet depositor withdrawals. This led to a classic "bank run" where depositors attempted to withdraw their capital in a hurry. The main reason this was necessary is because the bank invested deposits in long duration (interest rate sensitive) bonds when interest rates were very low. As rates increased, these bonds incurred mark-to-market losses, which means value was adjusted to reflect current market conditions. This wouldn't have been an issue if the bonds had been held to maturity. However, because clients sought withdrawals, SVB was forced to lock in those losses which, when announced, triggered a panic. Fortunately, over the weekend, both the US and UK (in their respective markets) have stepped in to ensure depositors are backed, which should begin to calm the situation.

This event, and the collapse over the weekend of Signature Bank (a smaller, crypto specialist), has highlighted how complex and diverse the financial sector is. Even despite the widespread improvements in liquidity throughout the banking sector since the financial crisis of 2008-09, excesses tend to be exposed in periods of tightening economic policy (for example, when interest rates are rising).

The main takeaways for clients are that these were banks with very specific investors, those in venture-capital backed technology and crypto start-ups, and ones that benefitted from a surge in deposits during the boom years (for those sectors) of 2018-2021. It is almost always the case that stress emerges in the financial system most prominently in the parts of the market where excesses are prevalent and this has once again held true.

We have cautioned in previous commentaries that excesses in non-profitable and speculative parts of the technology markets would be vulnerable in a world where money is no longer "free". We have seen that unfold in stock markets over the last 18 months and it is now happening in the broader financial system.

Our direct exposure to the crisis at WH Ireland is negligible. We are affected by broader sentiment which has moved markets over the last few days, but this should subside as it becomes clear that the issue is not systemic but rather concentrated to a specific part of the market. We are underweight the US market and consequently underweight US banks.

Where we do have bank exposure, it is predominantly in large cap, quality, diversified financials. SVB and Signature were neither quality nor diversified. Therefore, our sensitivity to the incident is modest, with little reason to believe our overall investment case (overweight UK, Asia and short duration Fixed Income; underweight US; neutral Europe compared to respective portfolio benchmarks) has been in any way structurally impaired.

## Jack Byerley, CFA

**Deputy Chief Investment Officer** 

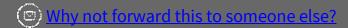


## A lifetime of advice









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