

## Quarterly Commentary – 28<sup>th</sup> March 2024

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At the end of the previous quarter, we suggested that the declaration of victory over inflation had come too early to be priced in with any certainty.

That declaration turbo-charged an easing in financial conditions that began last Halloween and has led to data across the globe picking up. As a result, policymakers have been forced to row back on that dovishness and we have seen the Fed ‘dots’ shift to a higher inflation rate, higher long term interest rates and even hints at a higher neutral rate.

Jerome Powell did an expert job in tempering any reaction to the longer-term dots moving higher with a dovish statement, but since then messaging has become muddled as Fed Governors have been talking about no cuts in 2024 and the neutral rate of interest or  $r^*$  (the rate which is neither expansionary or contractionary to economic conditions) having moved higher.

February also saw heavy coupon issuance (vs Bills in October that kick-started risk assets’ run), and term premium has been rising in bonds steadily since but has yet to find its way into other asset classes possibly due to robust growth expectations or the market still not believing the Fed in their commitment to returning inflation to target.

Against this backdrop, other asset classes including equity saw another quarter of significant gains with the broad basket of global equity up 8.9%.

Total Return	2024	Q1
UK 100	4.0%	4.0%
US 500	10.4%	10.4%
Europe 50	12.8%	12.8%
Japan 225	21.4%	21.4%
Hong Kong 50	-2.5%	-2.5%
US 2000	5.2%	5.2%
Swiss 30	6.8%	6.8%
Global Equity	8.9%	8.9%
Global Bond	-2.1%	-2.1%
Commodities	0.9%	0.9%
<b>PGF</b>	<b>2.2%</b>	<b>2.2%</b>
<b>AGF</b>	<b>0.8%</b>	<b>0.8%</b>
<b>DGF</b>	<b>3.0%</b>	<b>3.0%</b>
<b>USI</b>	<b>10.2%</b>	<b>10.2%</b>
<b>ARF</b>	<b>4.6%</b>	<b>4.6%</b>

The Fund returned 4.6% over Q1 2024.

### Income

The Fund is fully backed by short-dated high-grade debt. As rates have risen, so has the return available from the Fund’s collateral, with the collateral yielding 5.1% as at quarter end. The Fund’s income book returned 1.6% over the quarter.

### Diversifier

The Fund’s Diversifier bucket is a long/short equity implementation. The Fund’s long book targets the four main factors outside of equity growth; value, quality, momentum and size whilst targeting the ex-ante volatility of benchmark global equities. The Fund employs a short leg of those benchmark global equities and carries a typical ~30% net exposure.

As a result of tilting away from the expensive growth factor, the long book’s PE ratio is significantly lower than that of the benchmark to which the Fund is short; 16.3x vs 21.6x It also compares favourably in Return on Equity 15.4% vs 15.1% as well as Debt to Equity 0.9 vs 1.3.

In spite of the growth driven nature of the first quarter, the Fund’s long equity book rose 10.0%, with the shorts rising 8.9%.

The Fund’s Diversifier book returned 3.0% overall.

The Fund has had a strong start to its life and offers investors a profile that satisfies the three principles of efficient alternative investing; cost, liquidity and correlation. It maintains a competitive OCF, particularly within its sector, has high liquidity, and demonstrates a stable, predictable, and low correlation to the equity market beta, which it aims to diversify. If the market shifts away from the currently dominant growth factor, which presently influences all equity allocations, the Fund is expected to become an especially effective diversifier.

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