RML Advisory

Global Alternative Smart Alpha – Review & Outlook

January 2024

INTRODUCTION

From the inception of the Global Alternative Smart Alpha strategy in 2018, the strategy has fully achieved its objectives, namely identifying absolute return potential & alpha, genuine risk diversification due to low/negative beta and correlation to equities, bonds, and the global hedge fund industry, and little pairwise correlation across investment managers. These objectives have been met despite materially different environments for financial and commodity markets. Our conviction in our approach was confirmed early in the track record by being profitable both through a period of risk asset turmoil driven by a global pandemic and during the following recovery in financial market prices. In fact, the strategy made money leading up to March 2020 and for the remainder of 2020. Performance continued to track profitably in 2021 during a period of lower market volatility. The strategy again adjusted positioning tactically in late 2021 and early 2022 to benefit from a significant drop in both equity and bond markets as central banks globally attempted to combat rising inflation.

However, beginning in the fourth quarter of 2022 and extending into 2023, our managers significantly reduced risks, and 2023 has been the most challenging year since the portfolio's inception in January 2018. Our managers' actions throughout the year were very cautious due to the complex and unpredictable market- and geopolitical environment. As a result, our portfolio historically recorded 2023 the lowest volatility since inception (just over 2.2%, 12-month rolling). Global Alternative Smart Alpha strives to produce positive absolute returns, regardless of financial and commodity market direction, by investing in a diversified set of global developed markets across equity, fixed-income, foreign exchange, volatility, arbitrage, and commodity asset classes. Global Alternative Smart Alpha has historically exhibited minimal correlations to equity indices, fixed-income markets, and the global hedge fund industry.

We attempt to accomplish this aim through a blend of systematic and discretionary strategies by selecting and allocating to managers globally seeking to identify demonstrated portfolio management success attributable to experience, market knowledge, consistency, and risk control across time- and holding periods.

In any given rolling 12-month period, we expect one of these strategies to perform well while losses will be limited across the others. When one of these strategies materially struggles, we anticipate that other approaches will be more constructive, ideally offsetting losses. Prior to 2023, the realized performance path across these strategies had primarily matched our objectives. However, in 2023, we observed a breakdown in performance across some Global Macro Managers (Systematic and Discretionary) of the portfolio's primary strategies that somehow impacted our ability to deliver a more favorable (double-digit) return. However, we want to stress that our annualized return target is set to achieve 7 – 10% net returns. Despite a rather below-average 2023, we have clearly exceeded our cautious expectations with an annualized net return of 11.2% since inception.

PERFORMANCE OVERVIEW

December's dominant macro themes were easing inflation and implications for forward Fed policy.

Markets reacted by continuing rallies in bonds and equities from November, accompanied by solid reversals in the dollar, relative current strengths, and commodity volatility.

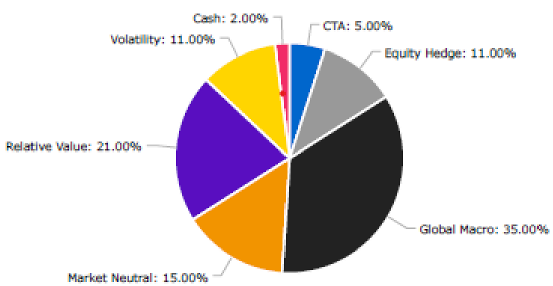
The November surge in US and European financials ignited by the Powell pivot in late October continued in December, as did the dovish FMOC meeting.

Mid-month fueled another risk-on leg up to close out a remarkable year for equities. The S&P 500 closed December up 4.2% and ended the year up almost 25%. The US 10Y Note rallied 2.8% and ended the year near unchanged at -0.74%. German Bonds posted a +3.5% gain for December and a +4.11% gain for the year.

The deflationary tone extended to energies. Crude oil dropped almost 6%, down 12% in 2023. Gold's numbers were +0.7% for the month and +5% for the year.

In F/X, the Euro gained a quiet 1% against the dollar and +3% for the year. The Yen rose 5% but dropped 7.5% for the year. Finally, China's A50 index diverged from the US and Europe to the end of December, down over 2% and 12% for 2023.

13 out of the 14 managers in our portfolio made a positive contribution in December. Relative Value, Market Neutral, and Global Macro strategies contributed most significantly, followed by Volatility, Equity Hedge, and CTA strategies.



We closed the month of December with +1.91%, bringing the portfolio's year-to-date performance to +8.85% (net). Considering the market's uncertainty, we believe this result is a satisfactory outcome, particularly on a risk-adjusted basis.

Dec	Year	MSCI World	Bloomberg US Agg. Bond
1.91	8.85	20.10	4.93

OUTLOOK 2024

For the first time in many years, we notice a consensus within our manager line-up that we will enter 2024 with two-way risks and opportunities in almost every asset class.

Zero-bound rates are gone and far from current levels. There are serious, bidirectional risks to rates with opposing resolutions at the short and long duration ends. Growth and demand are at levels that may rise or fall, triggering further policy reactions awaiting that input. Asset pricing and currency levels will trend accordingly. The correlation between equities and bonds may widely and routinely fluctuate after a decade of unilateral central bank support followed by two years of punishingly positive levels. Rates have also returned to where carry is meaningful in many asset classes and instruments after many years of drought. Term structure impact in commodities has risen to historically common and attractive levels after years of suppression. These are often associated with supply, demand, and storage challenges manifesting alpha opportunities.

Taken together, 2024 provides more typical conditions for Macro trading opportunities than the post-global financial crisis decade from 2010 to 2019.

2024 should, therefore, be a good year for hedge funds following a rather humble 2023. However, the average hedge fund will always be average minus its fees. And fees in hedge funds can be high.

Therefore, it's all about sensible manager selection and diversification across different strategies, with a strong focus and little pairwise correlation among the managers in the portfolio.

We will not make any significant changes to the current strategic asset allocation. We will stick to our unique blend of carefully selected investment managers and strategies targeting an uncorrelated set of opportunities that we believe is a distinctive offering.

Within our Core-/Non-Core framework, we are able to make tactical changes and rebalance the portfolio when we deem it appropriate.

Our investment process is both repeatable and systematic, ensuring consistency. We utilize proprietary analytics covering a broad universe, incorporating qualitative and quantitative data. Our approach combines data science with fundamental analysis, supported by advanced technology.

Stringent risk management and capital preservation remain at the core of our process. Proper risk diversification involves investing in a diversified pool of assets with low beta and correlation with traditional asset classes.

Asset Class

- ✓ Alternative Investments
- ✓ Liquid Alternatives
- ✓ Hedge Funds

Core-/ Non-Core“ Approach (70/30)

Core: risk-controlled, tending to be market-neutral, non-directional.
Non-Core: opportunistic, tactical

Diversification

Low/negative Beta to global equities, bonds and hedge funds

-0.03 Beta to MSCI World Index

-0.27 Beta to Bloomberg Global Agg. Bond Index

-0.05 Beta to HFRI FOF Composite Index

Return

Annualized net return target ≥7% - 10%

11.2%*
Annualized0net return

6 year- track record of uncorrelated returns

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The portfolio performance has been calculated since 01/01/2018 based on the provided monthly data (NAVs) of the funds/instruments included in the portfolio since the beginning of January 2018. Therefore, the calculated performance is not based on a hypothetical back test or a hypothetical portfolio construction process but on actual portfolio management activities from January 1 to date. Portfolio management activities include new fund subscriptions, full or partial redemptions at the respective net asset value, etc. However, the result reflects the performance of a portfolio that was not offered to investors over the entire period and, therefore, does not represent the returns that an investor achieved over the entire period. The price and value of the abovementioned investments and the income earned may fall, rise, or fluctuate. Foreign currency exchange rates may adversely affect the products' value, price, or income. Since 2018, the portfolio has undergone rebalancing to meet the strategy's allocation guidelines. Monthly figures for the reporting month are subject to subsequent change as some net asset values are not yet final. Should this be the case, the net asset values will be adjusted or corrected accordingly in the following month by the respective managers of the funds included in the portfolio. However, experience shows that such adjustments are only minor, if at all.

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