Incrementum All Seasons Fund

– in pursuit of real returns –

2020 / Issue No. 6

June 2020

Seasonal Reflections

The Grandest Casino

<u>quote(s) of the month:</u>

"No amount of sophistication is going to allay the fact that all of your knowledge is about the past and all your decisions are about the future." (Attributed to Oaktree Capital Group's Howard Marks, interviewed at the CFA Institute's annual conference by John Authers, Bloomberg Opinion, 19 May 2020)

"In my opinion, you have to be wildly optimistic to believe that corporate profits as a percent of GDP can, for any sustained period, hold much above 6%. One thing keeping the percentage down will be competition, which is alive and well. In addition, there's a public-policy point: If corporate investors, in aggregate, are going to eat an ever-growing portion of the American economic pie, some other group will have to settle for a smaller portion. That would justifiably raise political problems–and in my view a major reslicing of the pie just isn't going to happen." (Source: Fight The Fed, Jesse Felder, 20 May 2020)

"Ben Bernanke had always argued that the Federal Reserve's bond purchases were not government financing through the printing press, as the increased bond holdings were to be held only temporarily by the Federal Reserve: 'The (FOMC) has often stated its intention to return the Fed balance sheet to normal, pre-crisis levels over time. Once that occurs, the Treasury will be left with just as much debt held by the public as before the Fed took any of these actions.' When that happens, it will be clear that the Fed has not been using money creation as a permanent source for financing government spending.'
Between 2008 and 2015 the Federal Reserve's balance sheet total increased from USD 0.9trn to 4.5trn. *Only a fraction of this increase was repaid in the course of the economic cycle. After the first round of Federal Reserve measures to combat the catastrophic economic effects of Covid-19, the balance sheet total currently stands at a breathtaking USD 7trn. In reality, the exact opposite of Ben Bernanke's statement is true: The balance sheet inflation is permanent and is therefore government financing through the printing press. …*

*"**There is unanimity among governments and central banks on how to combat the economic consequences of the Covid-19 crisis: As many people as possible should be saved, whatever the cost.** Après nous le déluge – the level of debt no longer matters. The combination of an unprecedented economic collapse and soaring debt levels is explosive. The debt is now threatening to get out of hand for good. **After the Covid-19 crisis, a worsening debt crisis looms.** …*
***With the dawn of the new decade, the world will become increasingly interventionist.** In keeping with the motto "Once your worldly reputation is in tatters, the opinion of others hardly matters", all the barriers to new debt are now being breached. Debt no longer plays a role, and zero interest rates and money supply expansion remain the order of the day as far as the eye can see."* (Source: In Gold We Trust report 2020, Page 10, 11, 14, Ronni Stöferle & Mark Valek, Incrementum AG, 27 May 2020)

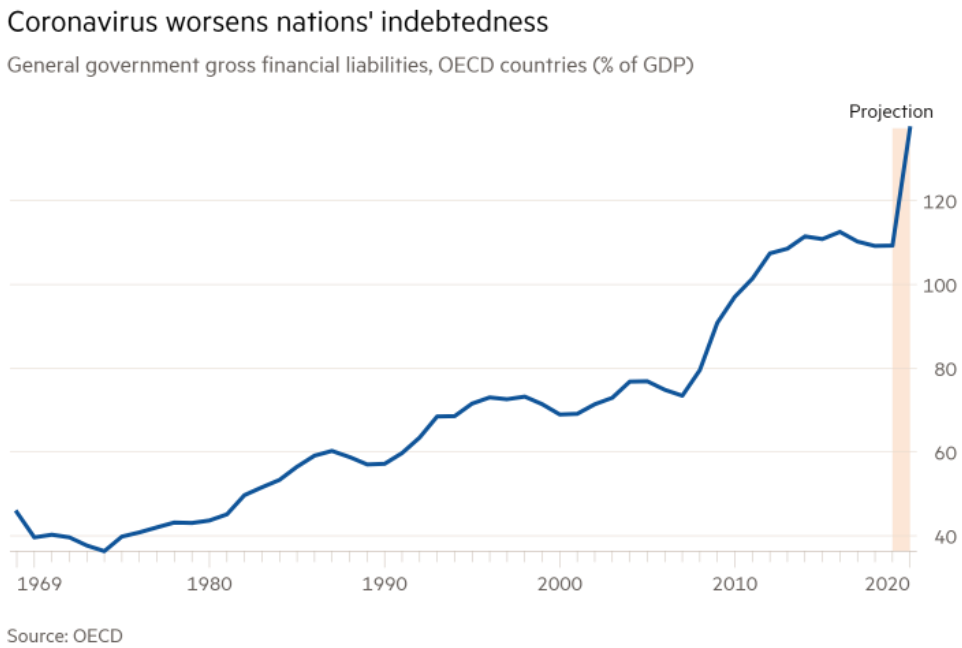
must read (as always!): Incrementum *In Gold We Trust* report 2020 – The Dawning of a Golden Decade

other worthwhile reads: A New Gilded Age, by Rusty Guinn (Epsilon Theory, 24 MAY 2020)

recommended podcast(s): The Grant Williams Podcast – Hmmminar with Diego Parrilla, 21 MAY 2020

meme of the month: Money Printer Go Brrr (The original), Source: Youtube
(Caution: Only for rock music atuned ears…)

chart(s) of the month:



Source: Richest nations face $17tn government debt burden from coronavirus, via FT, 24MAY2020

~~~~~~~~~~~~~~~~~~~~~
~~~~~~~~~~~~~~~~~~~~~

Dear Reader,

I trust my message finds you all in good health and spirit and enjoying the accelerating return to a pre-CoV state of affairs, wherever you may be.

Here in Liechtenstein we have had a most beautiful month of May. This is especially true considering that the last of the country's 82 confirmed CoV cases (only 1 fatal case, out of a total population of 38,749) was registered on April 26 already, and thus overall the country handled the pandemic quite well.

The beauty of spring, 26MAY20 (HGS own pic)

With no new infections for well over a month, government restrictions to combat the spread of the virus have been gradually loosened. As a result, roads are busier as people resume work in factories and offices, restaurants and shops have re-opened (with the mandated distancing requirements), and schools have partially resumed classes. Very few people are wearing masks, which contrary to other countries was never mandated, and although cross border traffic within Europe is still restricted, at the time of writing it looks like it will also resume normality by mid-June. Thus, thank god, the lost quarter may finally be behind us, as appears to be the case in other parts of Europe and around the world, too.

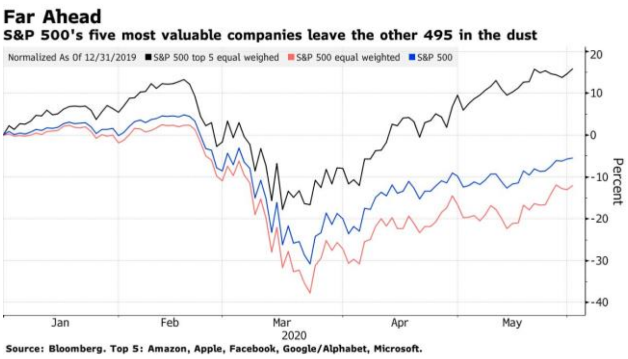
I have spent enough lines in past **Seasonal Reflections** both on the spread of the virus and the political response in fighting it, and plan to keep my macro thoughts shorter this time. Clearly, I do not envy politicians who under the burden of an unusual degree of uncertainty (and amid the many expert horror scenarios, and with pictures of a completely shut-down Wuhan on their mind) had to decide on how to protect their own citizens. But one cannot avoid feeling that few have worried about the adequacy and potential side-effects of the response to the virus: Not only has Covid-19 been abused as reason for all manner of emergency rules and "exceptional" regulations, which have resulted in the restriction of our liberties, but as the chart of the month above indicates counter measures have come at a very steep price, the final score of which we will likely only be able to properly assess by next year.

Over the past few weeks, we have had many discussions with investors on how this may change financial markets and our overall investment landscape (and allocations), and I want to use the following pages for a general market review and additional comments on how the **Incrementum All Seasons Fund** as well as our management of the fund have been affected. For those who look for a broader macro picture, I whole-heartedly recommend this month's **MUST READ**, the annual 2020 **Incrementum In Gold We Trust** report, which in German and English, compact and extended version can be found here.

When we look at financial markets in May / early June, one cannot help but feel that either they have fundamentally changed, or we are at least experiencing a truly epic degree of speculation. A fellow twitter user under the pseudonym Puff Dragon summarized many of my own thoughts on the matter as follows: *"After watching markets for 25 years, I have to say, this is the most extreme disconnect I have ever witnessed with regards to price against P/E, massive unemployment and drop in GDP, riots, failing trade wars, frauds, income inequality, etc."* (Source: Twitter, 1JUN2020) – Many experienced industry professionals and investors share this sentiment, and I guess if at the end of last year investors had been asked where (especially US) equity markets would be, given the fundamentals we are currently observing, few would have anticipated the levels we are currently seeing.

You may wonder why I direct so much attention to US stock markets in my reflections? – This is owed to the simple fact that US equity markets increasingly are the world equity market. MSCI in its May 2020 MSCI World Index factsheet lists the US country weight at **65.82% of global equity markets** (US share of global GDP in 2018 was 15.2%), followed by Japan with 8.22% and UK with 4.5%. The MSCI World Index top 10 constituent stocks account for 16.12% of total world equity index exposure (USD 6.5 tr), and consist of 9 US stocks (8 companies, as Alphabet (aka Google) is listed both with its 'A' and 'C' shares)), with the usual suspects making up the top 5 (Apple, Microsoft, Amazon, Facebook, Alphabet account for 12.79% of total MSCI World market capitalization).

The extraordinary impact of these Nifty-Five (in the 60s and 70s, the Nifty-Fifty described what were then the most popular large-cap growth stock) on overall S&P 500 performance is shown in the graph below on the left: The index' five most valuable companies are in a league of their own and have left the remaining 495 stocks in the dust. Without their contribution the rebound in the S&P 500 from its March lows would have been approx. 7% weaker than it actually has been.

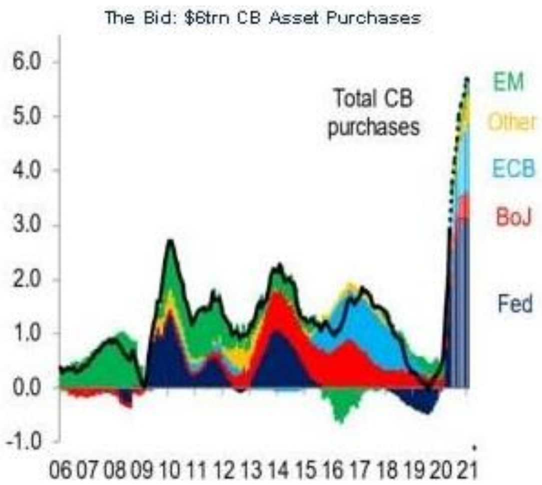


Source: Twitter, 2JUN2020

Source: Twitter, 2JUN2020

Meanwhile, the graph above on the right provides a somewhat longer perspective, creating an equally weighted index of the top 10 stocks in the S&P 500 by market cap. Over the last eight years they have on average turned out to be five-baggers (i.e. rallied by 500%). This has been **THE PROBLEM** for any manager who for valuation reasons decided not to own these stocks… – I totally get that, because I am one of those managers.

But is this investing? – Does putting money into businesses, which discount high double-digit top-line growth rates, yet have reached a size that reasonably prohibits them from delivering such kind of growth rates going forward, represent investing or speculating? – Have markets not turned into *THE GRANDEST CASINO* ever, especially recently, as both market cap size and stock price momentum seem all that matters? – Size because it grants you a favourable spot in those large low-cost index funds / ETFs and other index-linked investment products? – Momentum, because speculators look for stocks that move up, not at their underlying valuations?



Source: Waiting for a catalyst to break the limits, FT, 22MAY2020

Especially, since Robinhood and the likes have begun providing commission-free access to *THE GRANDEST CASINO* ever?

And above all, after global central banks seem to have severed the link between markets and the economy by implicitly and explicitly backstopping asset prices. Isn't this why we find ourselves in a scenario with post-war peaks in unemployment and record falls in economic activities, topped up with widespread social unrest, while stocks are near all-time highs?

Especially in the late stage of secular bull markets, these are not the questions that bother market participants. In my own three decades of investing experience they instead tend to argue that it does not matter whether you are a fundamental investor or a momentum investor, or any other kind of investor, as long as the investment approach you pursue works and delivers the moola. - I get that, too.

Source: Hedgeye, 27MAY2020

It's only after the bear market has run its course that the focus shifts towards a more prudent and fundamentally driven investment approach, as the preceding wealth destruction has left its marks and once again reminded investors that in the long run the market is a weighing machine. But this is not where we are just now, after global governments and central banks in one herculean effort managed to prevent a second bear market attempt after the Christmas crash from 2018 to fully unfold.

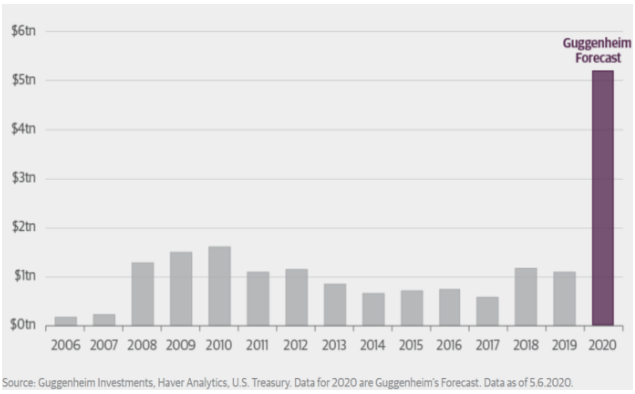
As Jesse Felder, fund manager, and founder and publisher of The Felder Report, who as one of the most thoughtful market commentators I know also contributed the second "quote of the month" on page 1, recently remarked:

"If there's any lesson investors have learned over the past decade, it's this one. 'When the Fed is making the money printer go "brrr!" [HGS: for a further explanation of "brrr", see meme of the month on page 2] *it's time to buy stocks!' But there is more to it than the simplified version of "liquidity" most traders have adopted. It is not only about how much money the central bank is printing; it's also about how much debt the federal government is issuing. And it's the difference that really matters most to the markets. In his recent interview with the Economic Club of New York, Druckenmiller tried to clear up this misconception:*

'The consensus out there seems to be, "don't worry, the Fed has your back." … There's only one problem with that, and it is our analysis says it's not true… I stated earlier that the Fed has increased their balance sheet from four trillion to eight trillion. While they've done that, the Treasury Department, I'd say the budget deficit estimate for this year has gone from maybe a trillion a year ago to three-and-a-half trillion… So in March and April alone, the Fed net of Treasury [bond] issuance, to pay for the new spending, created a trillion in QE more than Treasury [bond] issuance. So it's the biggest liquidity injection relative to history I've ever seen… The problem is as you look forward, because the Treasury deficits are not only still gonna be there, they're just rolling out aggressively now the financing of them, the Fed front ran this with their actions of a month or two ago and so what the Fed bought was a trillion more than Treasury issued. What's going to happen now is Treasury [bond] issuance has caught up with the Fed and if they stick to the schedule they've outlined the net difference between those two actually goes to zero in May and net borrowing by Treasury relative to Fed purchases in June very minor, pretty much flat through September. And then liquidity shrinks as far as the eye can see as the Treasury borrowing crowds out not only the private economy but even overwhelms Fed purchases… That leads me to believe… the risk for reward for equities is maybe as bad as I've seen it in my career here.'

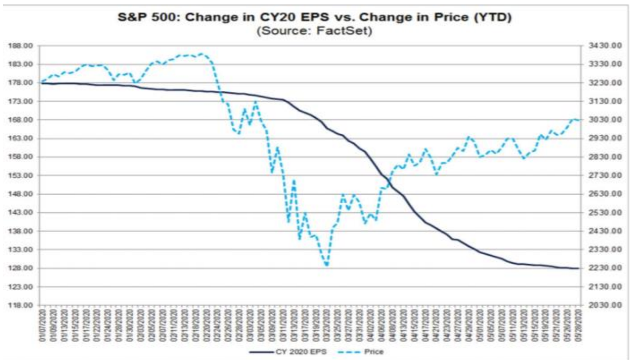
It's hard to be more plain-spoken than that even if it is a bit meandering. Contrary to popular belief, liquidity is not the tailwind for risk assets most traders believe it to be. In fact, it will soon be just the opposite. Net positive liquidity has already evaporated and will soon become a net negative because, even as the Fed prints record amounts of money, it will be overwhelmed by the money being sucked out of the markets by the rapidly growing needs of the Treasury." (Source: The Felder Report, 27MAY2020)

In other words, investors have been encouraged to chase stock markets higher by record levels of QE from global central banks, potentially not realizing that the effect could prove fleeting. After all, the liquidity boost has already mostly occurred. Meanwhile, exploding fiscal deficits will require more and more new bond issuance, thus draining liquidity from the system again, providing a less than stellar outlook.

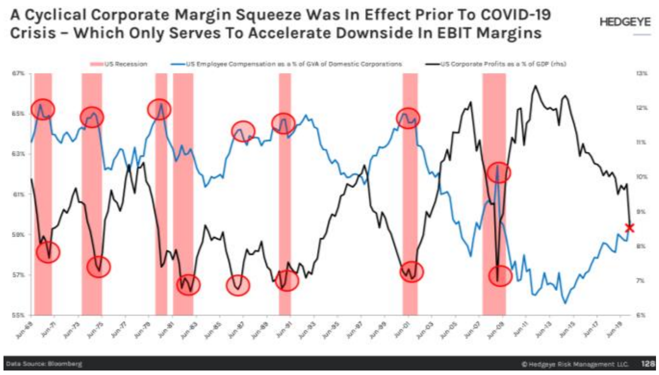


Source: Financial Times, 12MAY20

Now, let's look at some fundamental headwinds to a resumption of the prior bull market, which are earnings and profit margins. As the graph below on the left shows, FactSet estimates an S&P 500 earnings decline of nearly a third for 2020, a decline that clearly surpasses the fall in earnings during the Global Financial Crisis (GFC), while the stock market is rallying again amid expectations of a recovery in earnings in 2021.



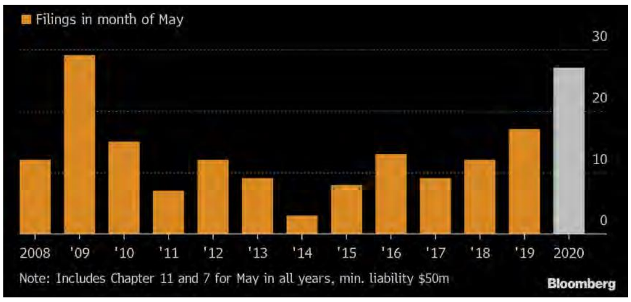
Source: [FT Market Forces](), 1JUN2020



Source: [Hedgeye](), 4JUN2020

What could stand in the way of such an earnings recovery? – A corporate profit margin squeeze has been underway for some time, as the graph above on the right shows, and it will certainly make it more difficult for S&P 500 earnings to regain their 2019 highs. In addition, top-line revenue growth is also expected to take some time to bounce back, i.e. a V-shaped recovery for the underlying economy still seems highly doubtful ([World Bank sees 5.2% hit to global growth this year]()).

Besides, investors do not seem to pay much attention to the recession-induced value destruction on corporate balance sheets. As usual, the focus is on earnings streams, not on substance. But the number of bankruptcies is already challenging the highs seen in the aftermath of the Great Financial Crisis, which suggests intense pain in the corporate sector.



Source: Bloomberg

Source: Bloomberg Points of Return, J Authers, 1JUN2020

In other words, from a fundamental perspective the current market already fully prices in a smooth return towards pre-crisis conditions, which seems hardly justified amid prevailing conditions, in combination with the numerous medical (e.g. potential 2nd wave, vaccine development, etc), economic and political uncertainties that dot the current investment landscape. As such the market is priced for perfection, and fundamentally we expect the risks to be to the downside.

The fact that this may not be a new bull market is also supported by research from the Leuthold Group, which has determined eight conditions that were typically prevailing in the first leg of a new bull market in the post-WW II era, of which by June 2 none was met.

Conditions Accompanying New Post-WWII Bull Markets

Date of S&P 500 Bear Market Low	S&P 500 P/E On Peak EPS < 15 At Low?	S&P 500 P/E On Normal EPS < 15 At Low?	S&P 500 VLT Momentum < 0 At Low?	Positive Momentum Divergence At Low?	Decline In NYSE 52-Wk. New Lows At Low?	Transports Outperform During Initial Upleg?	Utilities Underperform During Initial Upleg?	Breadth Thrust During Initial Upleg?	Conditions Met
June 13, 1949	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	8
October 22, 1957	Yes	Yes	Yes	No	Yes	Yes	No	Yes	6
June 26, 1962	Yes	No	No	Yes	Yes	Yes	No	Yes	5
October 7, 1966	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	7
May 26, 1970	Yes	Yes	Yes	No	No	No	Yes	Yes	5
October 3, 1974	Yes	Yes	Yes	Yes	Yes	No	No	Yes	6
March 6, 1978	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	8
August 12, 1982	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	8
December 4, 1987	Yes	Yes	No	Yes	Yes	Yes	Yes	No	6
October 11, 1990	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	7
October 9, 2002	Yes	No	Yes	Yes	Yes	No	No	Yes	5
March 9, 2009	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	8
March 23, 2020	No	No	No	No	No	No	No	No	0

© 2020 The Leuthold Group

Source: [Twitter](), 2JUN2020

But all this does not seem to matter at the time of writing this on June 9, as the bear is cowering in front of the mighty bull's charge… – with both seeming equally puzzled:

Source: Unknown (although, I seem to recall this pair can be found in front of the Frankfurt Stock Exchange)

Source: [Hedgeye](), 5JUN2020

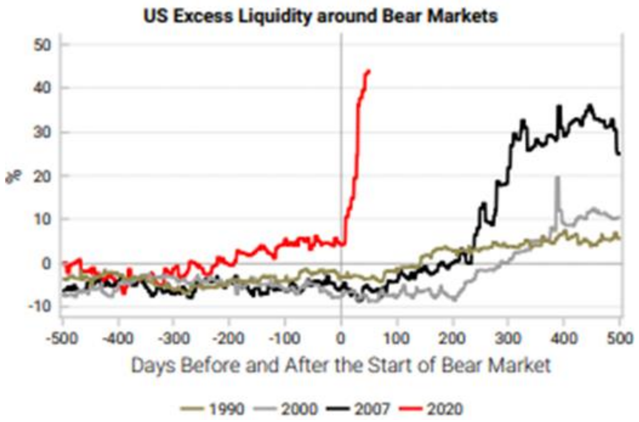
And the reason is clear as daylight. (Especially) the (US) stock market has morphed into a political utility (see [SR 2020/05](), Page 10), which is constantly being used to demonstrate the excellency of both the POTUS and his administration, and thus to act as a barometer for how GREAT the USA is actually doing.


Donald J. Trump
@realDonaldTrump

Big day for Stock Market. Smart money, and the World, know that we are heading in the right direction. Jobs coming back FAST. Next year will be our greatest ever!

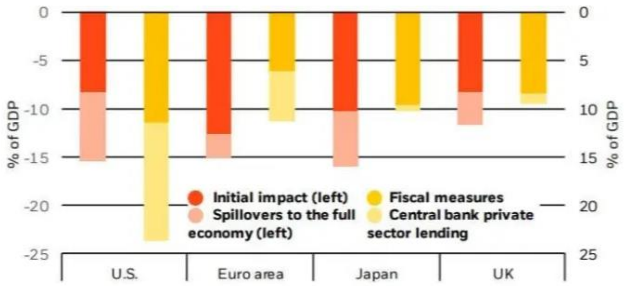
5:31 PM · Jun 8, 2020 · Twitter for iPhone

Source: [Twitter](), 8JUN2020



Source: Bloomberg Points of Return by J Authers, 9JUN2020

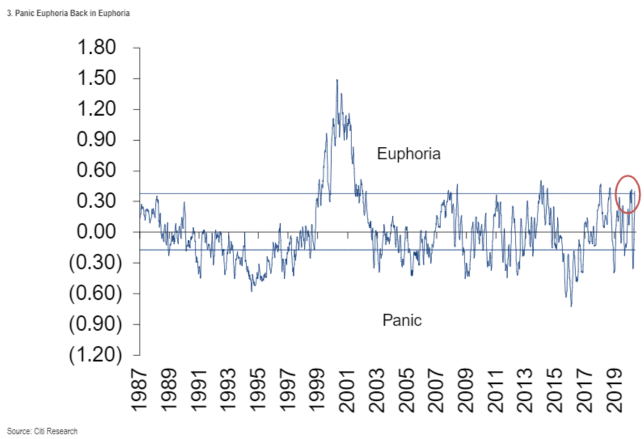
Fortunately, and as the graph on the left shows, financial market actors (I hesitate to call them investors) have their friendly and erstwhile independent central bankers to thank for their truly unprecedented liquidity injections.



Source: [Financial Times](), 9JUN2020

Meanwhile, governments have also done their duty in spending unprecedented amounts on supporting companies and consumers.

Amid this tsunami of liquidity, and considering TINA (**T**here **I**s **N**o **A**lternative – to equities, that is, because "top quality" cash and bonds yield (less than) nothing), we can of course intellectually grasp the immense pressure on share prices to rise. But given the almost complete severance from underlying fundamentals it is exceedingly difficult to quantify the price effects of both the liquidity injections as well as the stock promotion and related feelgood factor in encouraging speculation. And ultimately it has left us with the lingering suspicion that no matter how far the market can rise in the short-term, it cannot be sustained in the light of deteriorating underlying economic and corporate fundamentals. After all, prices paid determine future returns, i.e. the higher the price paid for an expected stream of future earnings / cashflows, the lower actual return expectations must consequently (c.p.) be.



Source: Bloomberg Opinion, Points of Return, John Authers, 29MAY2020

For now, of course, the mood is euphoric, and likely in an even more elevated fashion since the chart on the left was assembled. But to quote Bob Rodriguez, award-winning fund manager and former managing partner at Los-Angeles-based asset manager FPA: *„When you're in a casino, you realize that bad things can happen very quickly..."*. This is what we learnt the hard way only back in February / March, when stock markets fell by a third in less than a month, wiping out anywhere from 5-20 years of prior stock index gains.

In the same podcast that yielded the above quote by Bob Rodriguez, I picked up another one that strongly resonated with your humble scribe: *"In my heart I can't believe that you can ever repeal the fundamentals forever…"* (Stephanie Pomboy, founder of Macro Mavens, in Grant Williams' excellent Super Terrific Happy Hour Podcast from May 27)

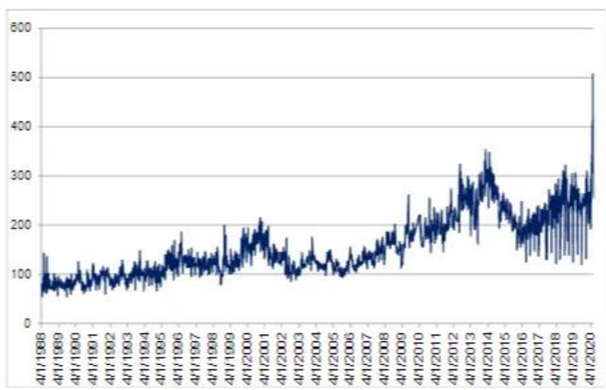
Source: Hedgeye, 8JUN2020

For now, though, the market reality is that participants – same as when they visit a casino – do not care about fundamentals. Instead, the only thing that matters is a ticker, narrative and momentum. Real investors rightfully worry about the consequences of 40 million in accumulated US weekly unemployment claims, yet for weeks the market has been reacting positively to weekly numbers that were merely less bad than the prior week.

In the same way, market participants have been chasing airline stocks, even though three quarter of all aircrafts are still grounded, and Warren Buffett is ridiculed for selling his holdings before a 50% bounce. And on Super Friday, June 5, when a 2.5m gain in job numbers was reported against an expected drop in employment of 7.5m, investors did not question what may have caused such a deviation (and I will spare you the details, but it was a mirage). Instead, they have been driving the price of DEFAULTED Hertz shares as high as USD 6.13, even though the company is already in chapter 11, and its longer-term bonds are trading between 30 and 40c on the dollar. This is *THE GRANDEST CASINO* ever, in which momentum rules and participants rely on the greater fool theory, hoping that for any price they pay, they will find a greater fool ready to pay more. – You care for more evidence?

Perhaps, record high Nasdaq trading volumes compared to the broad NYSE stock market will do it for you, dear reader. Some may argue that this is only rational because on Nasdaq all those wonderful tech and growth stocks are trading, which should be anything that any investor would ever want to buy. – Why? – Well, of course because they are blessed with the right momentum. In other words, they are going up. (As a reminder, money losing and dividend-, though not yet driverless Tesla is now worth as much as Germany's VW, Daimler and BMW combined, i.e. approx. USD 180bn.)

Figure 6. Nasdaq Volume as % of NYSE Volume



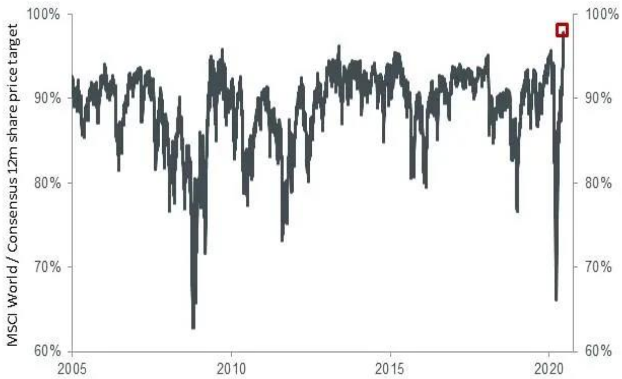
Source: Pinnacle Data and Citi Research – US Equity Strategy

Source: Financial Times, 9JUN2020

One of my core fundamental investment maxims is that, "A great company does not necessarily come with a great stock attached." – After all, no matter how good or bad a company's management, no matter how large or small a company's profits, no matter how bright or bleak a company's prospects, the attractiveness of a company's stock depends on its price. (Prices paid determine future returns… - one of my 8 investment lessons.) At a certain price, a great company's stock is expensive; at another price, a lousy company's stock is cheap. The key is to buy stocks that value the issuing companies for less than they are worth and wait for the market to recognize and adjust for the difference. That sounds easier than it is and even when you get it right it can be a frustratingly long wait. But investing always requires patience, at least from where we sit at Incrementum.

One last chart to visualize the speculative nature of this market:

As a 35-year investment veteran (a fitting label considering that sometimes I feel like I've been in a battle these past five months), I have often been amused about the fact that analyst price targets always seem to move ahead of the underlying stock price. I guess to justify "Buy" recommendations, which normally account for an estimated three quarter of all recommendations, a decent-sized (usually ~20%) capital gain must be foreseen.



Source: Financial Times, 9JUN2020

Hence, it should be a cautionary tale for market participants that according to Janus Henderson (see graph above), the MSCI World index divided by Bloomberg consensus analyst 12-month share price targets sits at a new peak since the data began in 2004. Obviously, there is not much in capital gains left before those customary optimistic price targets are reached…

FTSE Global 100, Source: Investing.com

In summary, the narrative claims things are getting better, and that has helped stock prices recover almost all prior losses, even though the underlying fundamentals are clearly worse than they were at the turn of the year. And as far as individual stocks are concerned, among market participants there is little consideration of intrinsic values, but merely for perceived growth momentum and whether a company is old or new economy. – Caveat Emptor!

Ok, enough about the prevailing state of global stock markets, which are undoubtedly rather challenging. But before I continue with more observations related to the **Incrementum All Seasons Fund**, please do take note of the following:

Any investment analysis, views, assumptions, and recommendations included in this letter are based upon current market conditions, reflect the opinion of the author, and do not necessarily correspond with the views of Incrementum AG as a whole. Seasonal Reflections are issued for information purposes only and must not be regarded as an attempt to solicit an investment in individual securities or the Incrementum All Seasons Fund. Past performance is no guarantee of future results. All investments involve risk including the loss of principal.

Ok, with this out of the way…

IASF 2019 NAV Change

6.6.(D)/26.9.(EUR-P)-31.12.2019

EUR-D	104.49	4.49%
USD-D	106.08	6.08%
CHF-D	102.96	2.96%
EUR-P	103.02	3.02%

For Charts, See Appendix

We launched the **Incrementum All Seasons Fund (IASF)** under my responsibility 11 months ago. During the build-up phase last year, the fund underperformed equity markets, though it delivered on its aim to produce positive real (as in inflation-adjusted) returns for all shareholders.

But during the correction in 1Q2020 **IASF** almost fell as much as the broad equity market did, which was clearly disappointing and hardly delivered the envisaged resilience in the face of a risk-asset correction. By the last valuation day of May, a larger part of these losses was recovered, a process that is ongoing.

IASF Year-To-Date NAV Change

31.12.2019 - 28.05.2020

EUR-D	94.70	-9.37%
USD-D	96.21	-9.30%
CHF-D	93.52	-9.17%
EUR-P	93.21	-9.52%

For Charts, See Appendix

IASF Month-Over-Month NAV Change

May 2020 (30.4.-28.5.)

EUR-D	94.70	0.58%
USD-D	96.21	0.34%
CHF-D	93.52	0.97%
EUR-P	93.21	0.55%

For Charts, See Appendix

As stated in the table on the left this process came to a halt in May, as the fund lagged an approx. 3.2% increase in the FTSE Global 100 Index over the reference period. This was due to a rebuilding of **IASF's** S&P 500 Short position amid the ongoing market rally, and some lacklustre sector performance.

So, why did we build up a short position in S&P 500 futures? – The reason is that we anticipate overall market declines over the course of the year for all the reasons quoted on prior pages. At the same time, we expect our long equity holdings to do well regardless of overall market direction, given that they represent excellent value and should benefit the most from relative improvements in underlying economic fundamentals.

Of course, the lack of resilience in **IASF's** NAV over the past five months is most disappointing for me, though things would clearly have been worse without the various derivatives transactions that were implemented for the fund.

On the right, I have listed the EuroStoxx 600 and S&P 500 (E-Mini) short futures positions that we implemented in the fund since launch last June, and which have been closed out since. These alone contributed approx. 4.4% of NAV accretion (estimate based on combined Profit/Loss in EUR and on an average EUR 40m in AuM in the fund over the period under observation).

		EuroStoxx 600 Futures - CLOSED		
Date	Transaction	No of contracts	Value	Notional
19.06.2019	Sell Open	60	EUR 382.18	EUR 1'146'549.00
12.03.2020	Buy Close	60	EUR 300.19	-EUR 900'579.90
			P/L	EUR 245'969.10

		S&P 500 E-Mini Futures - CLOSED		
Date	Transaction	No of contracts	Value	Notional
19.06.2019	Sell Open	9	USD 2'922.50	USD 1'315'125.00
04.07.2019	Sell Open	11	USD 3'000.75	USD 1'650'412.50
31.07.2019	Sell Open	20	USD 3'016.50	USD 3'016'500.00
11.09.2019	Sell Open	20	USD 2'981.00	USD 2'981'000.00
12.03.2020	Buy Close	30	USD 2'523.58	-USD 3'785'362.50
18.03.2020	Buy Close	15	USD 2'380.00	-USD 1'785'000.00
18.03.2020	Buy Close	15	USD 2'320.00	-USD 1'740'000.00
			P/L	USD 1'652'675.00

		S&P 500 Options - CLOSED				
Date	Transaction	Option Type	No of contracts	Strike	Notional	Premium
05.12.2019	Buy Open	SPX Put Spread	50	USD 3'000.00	-USD 15'000'000.00	-USD 65'000.00
05.12.2019	Sell Open	SPX Put Spread	50	USD 2'800.00	USD 14'000'000.00	USD 30'500.00
13.01.2020	Buy Open	SPX Put	10	USD 3'000.00	-USD 3'000'000.00	-USD 107'500.00
09.03.2020	Sell Close	SPX Put Spread	20	USD 3'000.00	USD 6'000'000.00	USD 232'790.00
09.03.2020	Buy Close	SPX Put Spread	20	USD 2'800.00	-USD 5'600'000.00	-USD 112'790.00
18.03.2020	Sell Close	SPX Put	10	USD 3'000.00	USD 3'000'000.00	USD 700'000.00
20.03.2020	Sell Close	SPX Put Spread	30	USD 3'000.00	USD 9'000'000.00	USD 1'686'000.00
20.03.2020	Buy Close	SPX Put Spread	30	USD 2'800.00	-USD 8'400'000.00	-USD 1'086'000.00
					0	USD 1'278'000.00

In addition, various S&P 500 option strategies concluded, which are shown on the left, delivered another nearly 3% in NAV accretion over the observation period.

As mentioned before and at the time of writing the fund has implemented an approx. 30% (25% at the end of May) short S&P 500 (E-Mini) futures position again, with a break-even at slightly over 2800. The latter is the main reason for the fund's sluggish performance last month.

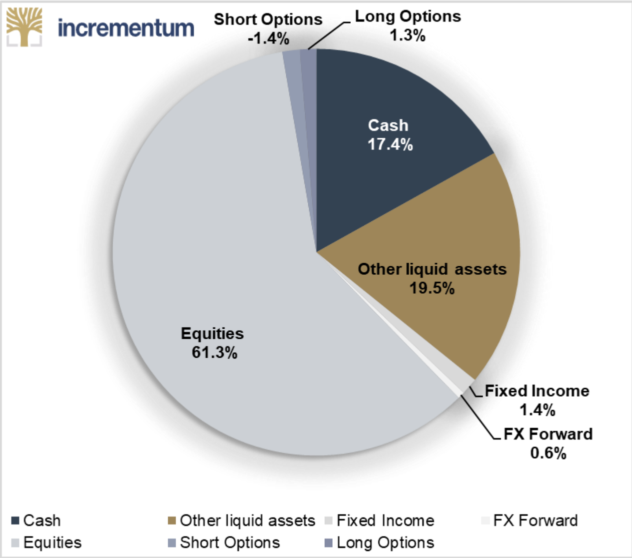
Now, before we review current allocations, let's quickly recap portfolio positioning and outcome so far this year: **IASF** went into 2020 with expectations of a cyclical upswing in energy / commodity / shipping markets, and was positioned accordingly. This clearly failed to materialize, as measures to combat the global CoV crisis caused a swift advent of almost depression-like fundamentals, which did affect these cyclical sectors disproportionally. Here fund management clearly underestimated the potential hit to the economy as the crisis developed, and obviously did not react forcefully enough to stop the bleeding. – Mea culpa! – In our defense I would argue that we underestimated the degree of punishment that would be dished out on these cyclical equity holdings, and thus overestimating the degree of effective protection the above shown hedges and derivatives positions would offer.

As always, these are conclusions we can draw in hindsight, though from a portfolio management perspective this is water under the bridge. We continue to see the current fund positioning as attractive from a longer-term perspective, with many holdings trading at extremely low valuations. And as broad equity markets have experienced a rebound that has surpassed even the most optimistic expectations, we believe it is sensible to maintain overall index hedge positions, which should help to protect the downside from here. But as always, we will aim to be nimble and adjust our positions in accordance with the developing market season.

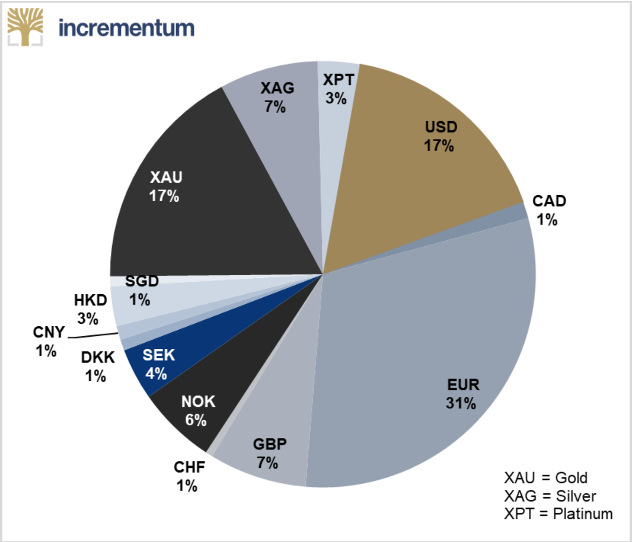
As usual, let's now look at **IASF's** allocations at the end of May, which are shown in the accompanying graphs.

As far as asset allocation is concerned, it registered a slight increase in equity allocation to 61.3% (+1.6%), which was the net result of the exercise of call (mostly on precious metals miners) and put options (mostly tanker stocks). **IASF's** remaining holdings have stayed mostly unchanged, with a miniscule fixed income allocation, and cash and other liquid assets still accounting for more than a third of the portfolio. Long and short options exposure is shown at their present market value, which remain negligible. Overall, equity options are always done on a covered basis only, i.e. calls are sold on existing holdings, puts only when sufficient underlying cash is available.

Asset Allocation

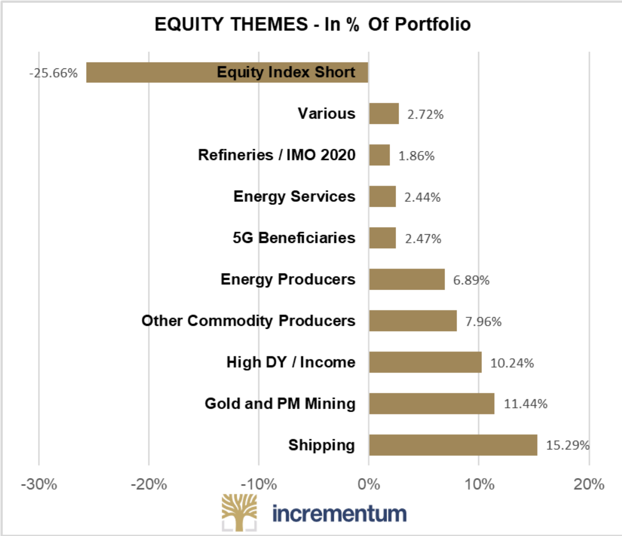


Currency Allocation



Overall currency allocation remains reasonably diversified, with the biggest changes seen in **IASF's** USD exposure (-12%), which was lowered in favour of the portfolio's base currency, EUR. Here we responded to a reduced interest rate difference, recent technical weakness, but also to a growing conviction that a weaker USD could well turn out to be an effective lever to stimulate global growth. Gold (XAU) exposure has fallen a bit amid profit-taking on the portfolio's gold miners, while all other currency exposures have remained unchanged, as we do not have much conviction especially towards available fiat currencies.

In terms of the fund's thematic equity allocation, the short S&P 500 futures position was increased to 25.7%, and at the time of writing to about 30%. – On the long side, the biggest changes occurred in **Shipping** stocks (+2.5%), where **IASF's** tanker exposure was further built out, while **Gold and PM Mining** (-1%) was reduced amid profit-taking. In addition, the **High DY** / **Income** basket fell by 1.5%, as we reclassified the fund's holding of BT shares under the **Various** basket, following the company's decision to suspend its dividend, which was certainly disappointing.



A quick word on the funds approx. 8% allocation to tanker stocks. This is as much an energy play, as it is a reflation trade. The former seems to face some short-term headwinds, both seasonally and because the record number of vessels used to store crude oil and products offshore has recently been declining. However, charter rates are still excellent, especially for VLCC's (Very Large Crude Carriers), and more importantly the market appears to remain reasonably tight, amid rising Chinese imports and the threat of 40 vessels being sanctioned by the US for doing business with Venezuela, which would further reduce available capacity. Looking forward, the sector has the lowest order book in decades, with owners reluctant to invest in new vessels given past experience of overbuilding, but also uncertainty about future vessel propulsion technology amid tightening regulations. Against this backdrop, tanker stocks have been trending sideways to lower recently, despite of the fact that they have increased their NAV's (and strengthened their balance sheets) considerably due to record high earnings during 1 and 2Q 2020, following a solid and strongly finishing 2019. Most of these were distributed as dividends, which has three of the fund's holdings offering double-digit yields. For now, however, share prices seem mostly impacted by rising oil prices, a disappearing contango and the recent momentum of falling TCE rates, even if those are still highly cash accretive to the underlying businesses… – But since prices paid determine future returns, we feel very comfortable with **IASF's** exposure to this particular sub-sector.

As responsible fund manager and co-investor in the fund, all my views expressed in this report, and particularly those concerning fund holdings must be considered biased and are not tailored to my readers' individual needs. Although I use great care in writing this commentary, it reflects my personal views and opinions only, and as all I do as a fund manager is subject to a great amount of uncertainty, you should not rely on it for accuracy. Thus, always consult a licensed investment professional if you are seeking investment advice! And remember that past performance is no guarantee for future results, and all investments involve risk including the loss of principal.

In Closing

In summary, May portfolio action proved resilient, yet sluggish, as the implemented S&P 500 index hedges held back the general advance on our long positions, costing approx. 1.2% of portfolio performance. Still, after the swiftest market advance in decades and considering the fundamental backdrop, we believe it is prudent to hedge the portfolio downside at this stage, even if FOMO (Fear Of Missing Out) is still ruling unchallenged.

As always, I hope you found this a useful account of what is going on in the **Incrementum All Seasons Fund**, and I invite any feedback or comments by e-mail. Meanwhile, I sincerely thank all readers for their interest, my investors for their support, and I wish everyone good health and to stay safe in these challenging times.

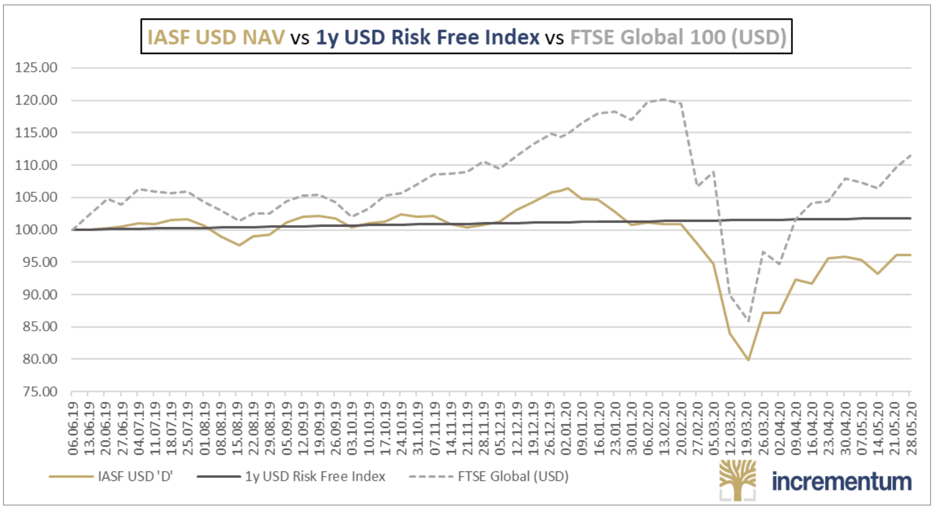
Greetings from Schaan, Liechtenstein!

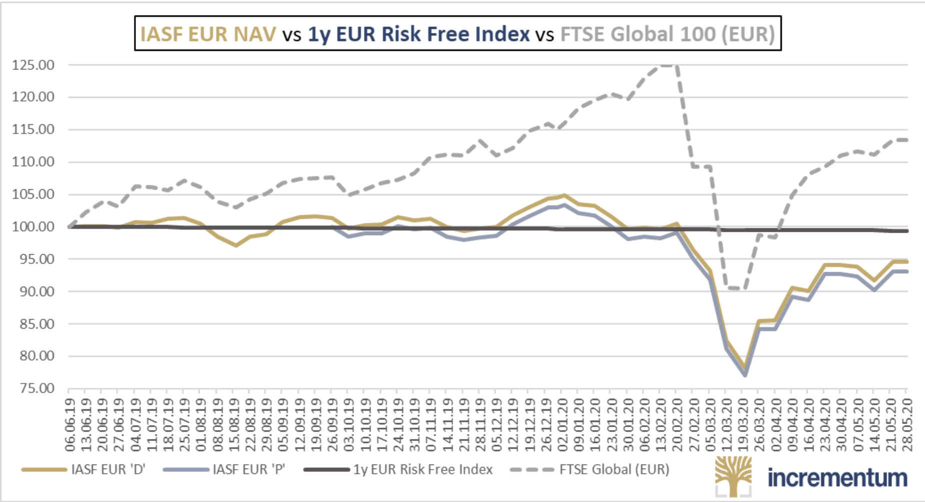
Best regards,

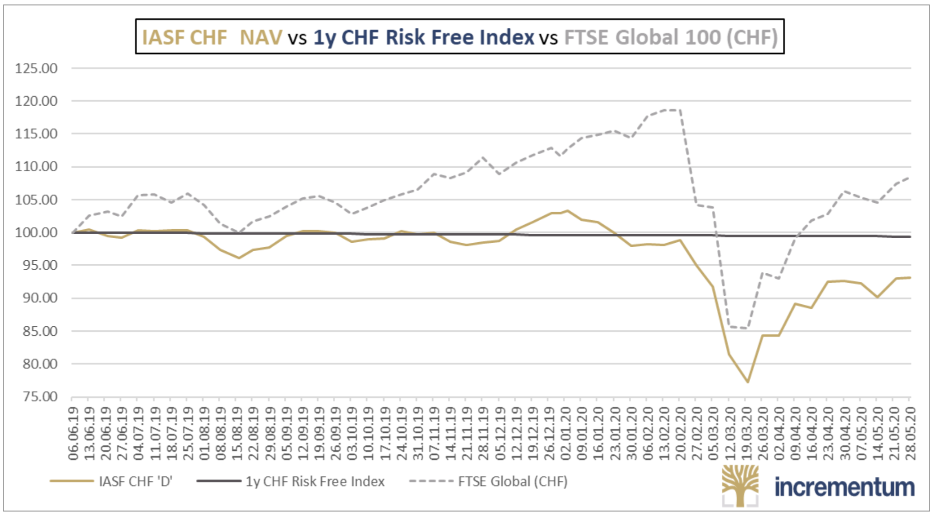
Hans

Hans G. Schiefen
Partner & Fund Manager IASF
Incrementum AG
Im alten Riet 102, 9494 Schaan (LI)
Tel.: +423 237 26 67 (o), +41 78 828 1339 (m)
Mail: hgs@incrementum.li
Web: www.incrementum.li & http://ingoldwetrust.li

Appendix *







* Graphs display NAV of IASF 'D' shares as of last valuation date (**28May2020**), compared to the respective risk-free 1y-government yield as well as the FTSE Global 100 Index in respective currency as a proxy for overall equity market performance, from the start of the investment period (6Jun2019 for 'D' shares; 26Sep2019 for EUR-P shares) on an indexed basis.

IASF PM Shaped By 8 Investment Lessons

1. Capital markets, like the economy, are inherently cyclical in nature, and you must always know where you are in the cycle, while not hesitating to "Be fearful when others are greedy and greedy when others are fearful." (Quote: Warren Buffett)
2. Prices paid determine future returns, i.e. the higher valuations are, the lower future return expectations must be (and vice versa), which is the essence of value investing.
3. Capital preservation is the conditio sine qua non, and a consistent and long-term investment strategy is more important than short-term momentum chasing.
4. As a result you must always know when you trade, or when you invest.
5. The most basic and effective risk management tools are proper diversification and the ability to hold cash.
6. Hard assets are preferable to intangibles, distributions to accruals.
7. Look for the incentives: True alignment of interest works in investors' favor.
8. There is no magic formula for successful investing: Consider both macro- and micro-economic issues, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science.

incrementum www.incremetntum.li

Disclaimer

This document is for information only and does not constitute investment advice, an investment recommendation or a solicitation to buy or sell but is merely a summary of key aspects of the fund. In particular, the document is not intended to replace individual investment or other advice. The information needs to be read in conjunction with the current (where applicable: full and simplified) prospectus as these documents are solely relevant. It is therefore necessary to carefully and thoroughly read the current prospectus before investing in this fund. Subscription of shares will only be accepted on the basis of the current (where applicable: full and simplified) prospectus. The full prospectus, simplified prospectus, contractual terms and latest annual report can be obtained free of charge from the Management Company, Custodian Bank, all selling agents in Liechtenstein and abroad and on the web site of the Liechtenstein Investment Fund Association (LAFV; www.lafv.li).

The information contained in this publication is based on the knowledge available at the time of preparation and is subject to change without notice. The authors were diligent with the selection of information, but assume no liability for the accuracy, completeness or timeliness of the information provided. This fund is domiciled in the Principality of Liechtenstein and might be further registered for public offering in other countries. Detailed information on the public offering in other countries can be found in the current (where applicable: full and simplified) prospectus. Due to different registration proceedings, no guarantee can be given that the fund and – if applicable – sub-funds are or will be registered in every jurisdiction and at the same time. Please note, that in any country where a fund is not registered for public offering, they may, subject to applicable local regulation, only be distributed in the course of 'private placements' or institutional investments. Shares in funds are not offered for sale in countries where such sale is prohibited by law.

This fund is not registered under the United States Securities Act of 1933. Fund units must therefore not be offered or sold in the United States neither for or on account of US persons (in the context of the definitions for the purposes of US federal laws on securities, goods and taxes, including Regulation S in relation to the United States Securities Act of 1933). Subsequent unit transfers in the United States and/or to US persons are not permitted. Any documents related to this fund must not be circulated in the United States.

Past performance is not a guide to future performance. Values may fall as well as rise and you may not get back the amount you invested. Income from investments may fluctuate. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. You should obtain professional advice on the risks of the investment and its tax implications, where appropriate, before proceeding with any investment.