# Incrementum All Seasons Fund

*– in pursuit of real returns –*

**2023 / 01**

## *Seasonal Reflections*

***Turbulent Times***

Dear Reader / Investor,

A belated Happy New Year to all of you!

I have the habit of starting this missive with a seasonal picture, which this time is a winter scene, taken from our terrace in the early evening of New Year's Eve, which provided more spectacular fireworks than any that followed around midnight. The scene proved both fleeting and mesmerizing, and it very much felt as much a sign of the times as the turbulences we have experienced in 2022 and will likely have to face this year as well.

Mountain range west of Schaan, 31DEC2022, HGS pic

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(All underlined passages in <u>red</u> are active weblinks!)



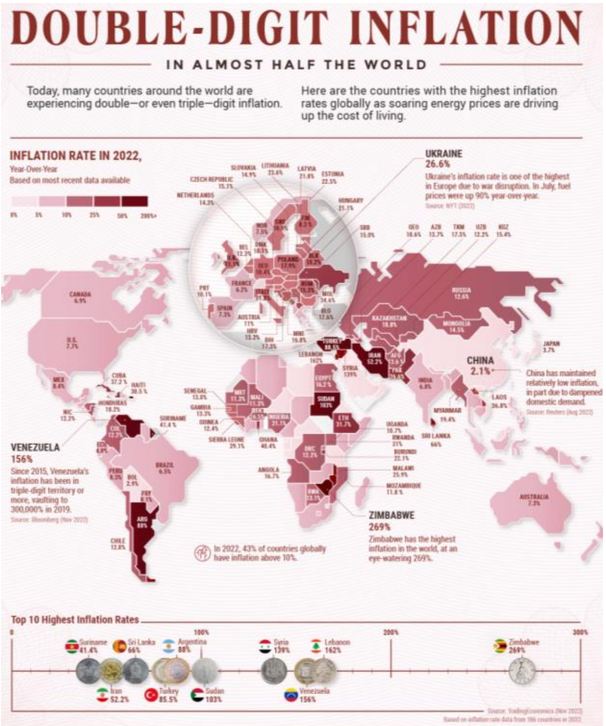
27th of January 2023

incrementum

## 2022 – The year that was

The geopolitical and macro-economic background is to us like an already worked on canvass on which we must put the more detailed brush strokes that determine the final picture. For 2022 we had anticipated the end of Covid as a global pandemic but did not expect China to cling to its zero-Covid policies for as long as it ultimately did. I shared personal views on the pandemic before in these pages and am sure many books will be written about how it has changed our lives, societies, and politics. Thus, I will leave you with a short contribution by actor Tim Robbins, which touches on some key aspects.

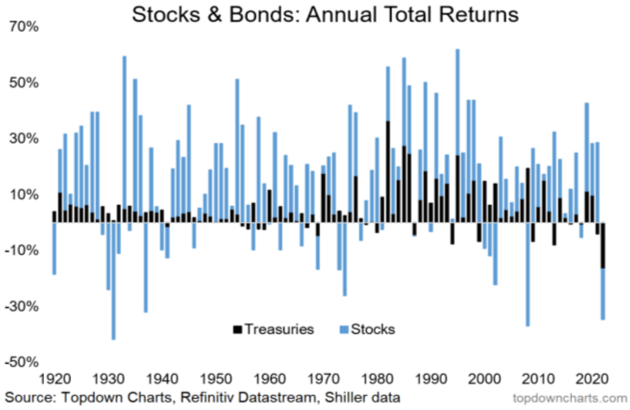
2022 also saw Russia's invasion of the Ukraine on February 24, which surprised most observers, including yours truly. It has led to a war that is still raging, has cost hundreds of thousands of lives, harmed and displaced millions and destroyed valuable infrastructure and buildings that will take a long time to rebuild. By the turn of the year, it is clear that Russia's military machine has failed to make the originally envisaged progress, as Western nations have taken concerted action to deliver loads of weapons and billions in aid to Ukraine so that it can continue to wage a surrogate war. The result: Putin cannot quit, and NATO does not want to, which leaves the risk of escalation, while the bludgeoning of Ukraine continues. – I will not say more, except that I pray that the new year's evening sky over Schaan and the Rhine valley was a sign of things that happened rather than those to come, and that against all apparent odds an armistice can be achieved, and peace return in 2023.



Visualcapitalist.com, 5DEC2022

2022 was also the year of rampant inflation, which every central banker of rank and file had thought impossible. Peak rates reached double-digit territory, though have been declining since on a mixture of falling energy prices, an unclogging supply chain, and growing base effects. Global central banks were late to the party but have caught up with vigour in their campaign to raise rates, ending for now the (too) long period of negative interest rates. The hope is that amid slowing growth a soft landing can be engineered (though when has that ever worked), while bringing inflation back down to the coveted 2% (annual) debasement level. – My guess is that once again we will be disappointed that hope does not triumph over experience.

In financial markets, 2022 was a year for the history books as well. As the chart shows, it has been only the fifth year during the past century, in which both equities and bonds did yield negative total returns (aka losses). This was the result of excessively overvalued markets being faced with global central banks' sudden urge to tighten monetary policies, which had the Federal Reserve raise interest rates at the fastest pace in 40 years to combat run-away inflation.



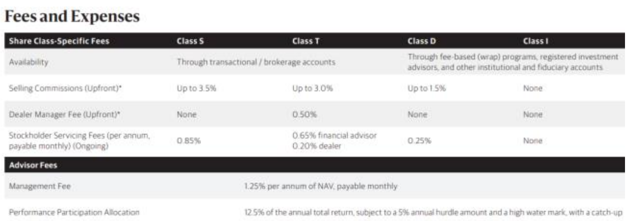

Weekly S&P500 ChartStorm, Callum Thomas, 1JAN2023

As a result, global stock market valuations plunged by USD 25tr, with the FTSE Global 100 equity index shedding 22.3%, the biggest decline since 2008. Losses were led by the high-flying Nasdaq, which shed a third of its value, while Europe's Stoxx 600 index fell 13%, supported by a significantly weaker EUR (-6% vs USD). In this environment, bonds did not provide a safe haven, with global government and corporate debt shedding nearly USD 10tr in market value (FT, 30DEC2022). Meanwhile, after tremendous rallies during the first half of the year commodity prices gave up most of their gains over the remaining course of the year. Though oil (in USD) remained in positive territory, copper actually saw double-digit declines, and precious metals hardly profited as much from the overall environment than one may have expected.

As usual a bear market like this had its high calibre casualties, ranging from many former high-flying tech / growth stocks to the Crypto space, where token prices have been declining all year, culminating in a series of failing businesses, with the FTX collapse in 4Q the high point so far.

And noteworthy here is also the gating of Blackstone Real Estate Income Trust in December, which according to its sponsor, Blackstone, *"is a perpetual life, institutional-quality real estate investment platform that brings private real estate to income-focused investors"* (BREIT Fact Card).

In other words, BREIT is a USD 68bn private real estate investment trust set up to raise money from retail investors seeking to share in the bounties available to institutional money managers at less modest fees.



**Fees and Expenses**

| Share Class-Specific Fees | Class S | Class T | Class D | Class I |
|---|---|---|---|---|
| Availability | Through transactional / brokerage accounts | | Through fee-based (wrap) programs, registered investment advisors, and other institutional and fiduciary accounts | |
| Selling Commissions (Upfront)* | Up to 3.5% | Up to 3.0% | Up to 1.5% | None |
| Dealer Manager Fee (Upfront)* | None | 0.50% | None | None |
| Stockholder Servicing Fees (per annum, payable monthly) (Ongoing) | 0.85% | 0.65% financial advisor<br>0.20% dealer | 0.25% | None |
| **Advisor Fees** | | | | |
| Management Fee | 1.25% per annum of NAV, payable monthly | | | |
| Performance Participation Allocation | 12.5% of the annual total return, subject to a 5% annual hurdle amount and a high water mark, with a catch-up | | | |

This looks a lot like the canary in the coal mine for what is to come for so-called private market (equity, credit, real estate and other illiquid) capital pools. – Welcome to 2023!

## 2023 – The year that has started

The BREIT case is particularly interesting as it sheds light on the fact of how much money has been poured into private investment vehicles (i.e., entities that own non-publicly listed assets) during the past cycle. The reason why BREIT has encountered rising fund outflows is that its NAV has maintained rather lofty valuations while publicly traded REITs (Real Estate Investment Trusts) investing in the same asset class have seen their share prices plunge. That has made BREIT investors nervous that Blackstone's valuation of the underlying fund real estate portfolio may not exactly reflect reality. As a result, swelling redemptions met a lack of liquidity to satisfy those, causing BREIT to restrict investors' redemptions to a maximum 2% monthly (or 5% quarterly) of their holdings. (For anyone interested in more details on the subject, FT, Doomberg and Epsilon Theory provide excellent input.)

Other actors that I expect to gain more stage time are highly leveraged companies, who with significantly risen nominal interest rates are going to face growing refinancing risk, the longer that interest rates will stay elevated. Coupled with a growth slowdown / recession, this does not bode well for the banking (and shadow banking) sector, which will face the prospect of increasing write-offs.

But WAIT, I hear you say: *Why would nominal rates have to stay elevated, if inflation rates have turned from their peaks and are coming down again? – That will certainly cause central banks to do a policy pivot, slashing interest rates again and potentially reversing QT (Quantitative Tightening)!*

Yes, indeed, for now it is apparent that we have passed a first inflationary peak, and that a slowing economy, coupled with tighter monetary policy, and helped by a growing base effect (current price levels are comparing increasingly to a similar level achieved during the first sharp rise in 2021/22), will further dampen year-over-year inflation. The OECD, which as a political organization can hardly be seen as casting too critically an eye on these things has provided the following quarterly forecasts:

**Inflation forecast** Total, Annual growth rate (%), Q4 2019 – Q4 2024

| Location | Q4-2019 | Q1-2020 | Q2-2020 | Q3-2020 | Q4-2020 | Q1-2021 | Q2-2021 | Q3-2021 | Q4-2021 | Q1-2022 | Q2-2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China (People's Republic of) | 4.1 | 4.8 | 2.9 | 2.1 | 0.2 | -0.0 | 1.0 | 0.8 | 1.6 | 1.1 | 2.1 |
| Euro area (17 countries) | 1.0 | 1.1 | 0.2 | 0.0 | -0.2 | 1.0 | 1.8 | 2.8 | 4.6 | 6.1 | 8.0 |
| Germany | 1.2 | 1.5 | 0.6 | -0.1 | -0.6 | 1.7 | 2.1 | 3.6 | 5.5 | 6.1 | 8.3 |
| Japan | 0.6 | 0.6 | 0.2 | 0.0 | -0.8 | -0.5 | -0.8 | -0.2 | 0.5 | 0.9 | 2.4 |
| OECD - Total | 1.7 | 1.9 | 0.9 | 1.2 | 1.2 | 1.9 | 3.4 | 4.1 | 5.6 | 7.5 | 9.2 |
| United States | 2.0 | 2.1 | 0.4 | 1.3 | 1.2 | 1.9 | 4.8 | 5.3 | 6.7 | 8.0 | 8.6 |

| Location | Q3-2022 | Q4-2022 | Q1-2023 | Q2-2023 | Q3-2023 | Q4-2023 | Q1-2024 | Q2-2024 | Q3-2024 | Q4-2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| China (People's Republic of) | 2.5 | 2.4 | 2.7 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Euro area (17 countries) | 9.4 | 9.6 | 8.7 | 7.5 | 6.1 | 4.9 | 4.0 | 3.5 | 3.1 | 2.9 |
| Germany | 9.5 | 10.1 | 9.3 | 8.8 | 7.7 | 6.3 | 4.8 | 3.6 | 2.7 | 2.3 |
| Japan | 2.8 | 3.2 | 2.8 | 2.1 | 1.6 | 1.4 | 1.5 | 1.6 | 1.7 | 1.9 |
| OECD - Total | 9.9 | 9.7 | 8.1 | 6.7 | 5.9 | 5.6 | 5.3 | 5.2 | 5.1 | 5.1 |
| United States | 8.3 | 7.1 | 5.6 | 3.8 | 3.1 | 3.1 | 2.8 | 2.6 | 2.5 | 2.3 |

Information on data for Israel: http://oe.cd/israel-disclaimer

.. Not available; | Break in series; e Estimated value; f Forecast value; x Not applicable; p Provisional data; s Strike; - Nil;

https://data.oecd.org/chart/6WNX

OECD-wide, inflation rates are expected to reach 5.6% and 5.1% by the end of 2023 and 2024, with Euro area inflation at 4.9% and 2.9%, and US inflation at 3.1% and 2.3% respectively. In other words, even OECD economists cannot see inflation returning to 2% or below over the coming 2 years, and I would wager that their estimates will prove too optimistic.

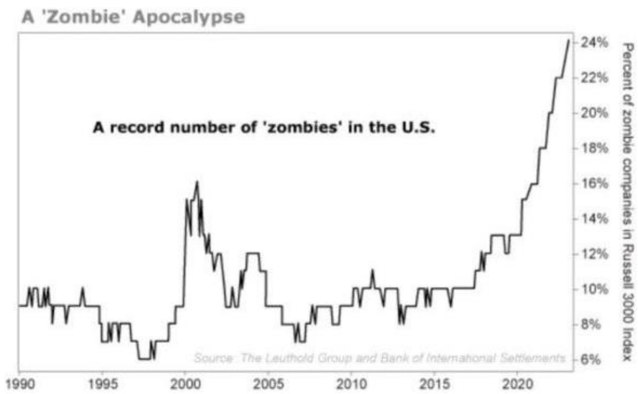
But even if they were not, there is still the maturing secular debt cycle to be considered, which ever more urgently poses the question of how to fund both existing debt and deficits? – With a new debt ceiling debate in the US looming, this issue will likely move to the forefront of investors' concern.

US Dollar Index (DXY), 16JAN2023

If we look at a longer-term graph of the US Dollar Index (DXY) it shows that last year's spike has reversed already, as the USD has lost 10% against its major advanced economies' peers. This is due to the fact that especially at the long end of the yield curve the interest rate differential has been falling, as, e.g., European 10y rates have risen faster than US ones.

For now, this looks more like a move to correct an overly lopsided long USD positioning among international investors, but if the trend continues, those same investors will want to be compensated for a weakening USD by higher rates. What is important to realize here is that 10-year US Treasury rates at 3.6% remain deeply in negative territory (compared to 6.5% inflation), and even if inflation rates drop as envisaged by the OECD above, they will only turn slightly positive by the end of this year, leaving little margin of error. Needless to say, the situation is similar in Europe, where short- and long-term interest rates are also still deeply negative on an inflation-adjusted basis.

Consequently, we expect nominal rates especially at the longer end of the yield curve to move rather higher than lower from here. This in turn will mean rising refinancing pressure as for the first time in decades maturing bonds will have to be replaced by higher yielding new ones. Amid a recessionary backdrop that promises to be very challenging for highly leveraged zombie companies and governments, which could cause quite some turbulence in financial markets.

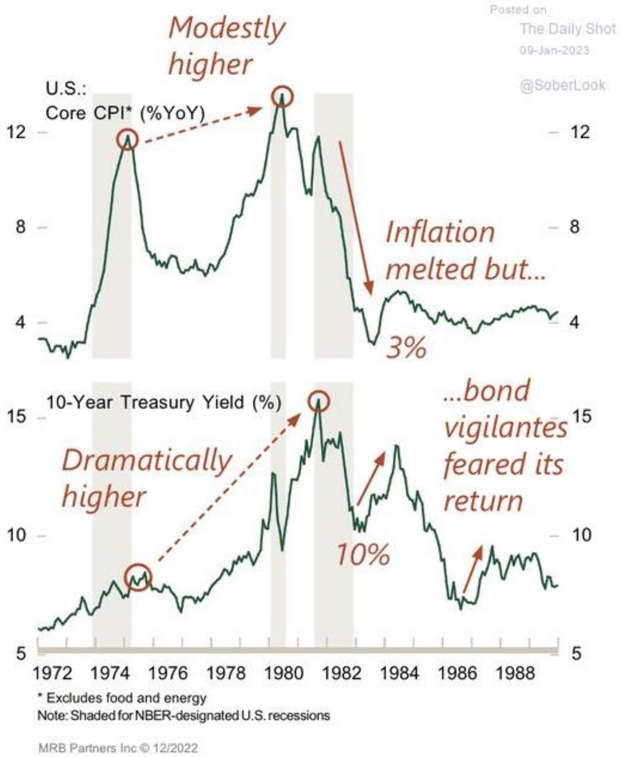



European Capital Partners, The walking dead, 21DEC2022

Jesse Felder has recently described the inflationary outlook with the following words: *"In regards to geopolitics, we have the hot war in Ukraine and the cold war with China that will drive not only deglobalization of supply chains and energy markets but also more demand for military spending. Domestic politics is dominated by the willingness to borrow and spend on everything from normal budget items, which alone are growing at a rapid clip, to new measures like those deemed necessary to battle climate change and direct payments to households as part of counter-cyclical fiscal stimulus. Finally, the demographic challenge posed by an aging society means the size of the workforce relative to the overall population is shrinking which will put upward pressure on wages for as far as the eye can see."*

Then there is the fact that the supply of many critical materials – and not only energy or those used in the energy transition – has in recent years been constrained amid a lack of capital and investment. Robert Friedland, founder of the Ivanhoe Mining group and one of the best known commodity investors, expanded in a recent MacroVoices podcast on the subject. With demand still expected to rise, this risks further cost pressures in anything that is actually physically produced, and thus adding to inflationary pressures.

Lastly, in a highly leveraged economy, financing cost are also a not insignificant part of running a business, which means that, c.p., they will squeeze profit margins. Companies will attempt to counter this by raising selling prices, further adding to inflationary pressures.



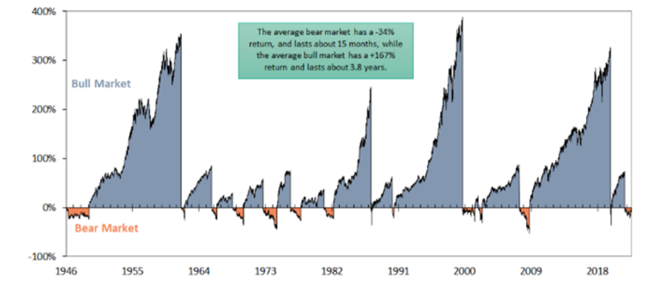
@jessefelder, Twitter, 9JAN2023

All this supports our thesis that after a cooling off of current inflationary pressures, we may well see another move higher similar to what was experienced in the 70s. And this next inflationary wave will be the result of all economic actors slowly adjusting to the new structural inflationary environment.

Hence, the key challenge for policy makers in the 2020s is to balance the need to effectively reduce the existing real (i.e., inflation-adjusted) debt burden through higher inflation, while at the same time maintaining their inflation fighting credibility at least to some degree, so that bond investors will not revolt but continue refinancing maturing debts. It is unlikely that this can be achieved without a growing degree of financial repression, but for now we are still too early in this process to worry too much about it.

As a result, we expect higher for longer short-term as well as rising long-term rates, even if advanced economies enter recessionary territory. This will be countered by an improving growth outlook for the Chinese economy, which will benefit from the end of its radical zero-Covid policy and the resulting release of pent-up demand, coupled with government stimulus measures. This is positive for equities, in particular in Asia (incl. Japan), and investors are already positioning accordingly.

US equity market bulls meanwhile base their argument on the following observation: *"The average bear market has a -34% return, and lasts about 15 months, while the average bull market has a +167% return and lasts about 3.8 years"*.

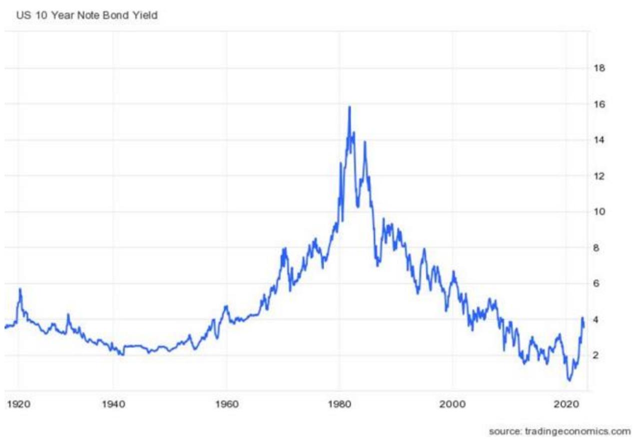



Source: Edward Jones calculations, Bloomberg, Dow Jones. Past performance is not a guarantee of future returns, indexes are unmanaged and cannot be invested in directly.

@chigrl, Twitter, 1JAN2023

While on first glance this seems a reasonable argument, the averages are both distorted by the fact that long-term equity markets tend to rise, as well as by the three powerful bulls post WW-II, during the 1990s and during the 10s. This argument also does not account for the different base effect for bull and bear markets (remember a 50% loss as seen in 2008/09 requires a 100% gain to just breakeven).

In fact, the last major interest rate upward cycle, during the stagflationary years of the 70s and early 80s, also coincided with a notable stretch of overall flat (nominal) stock prices during the period from 1968 to 1982, which in the chart above is marked by a period of repeated minor bull and bear markets. Bulls may argue that we are nowhere near the same level of interest rates, while bears may counter that the far more elevated leverage level in the system ensures a much higher rate sensitivity.




History of US 10y Treasury yield, Tradingeconomics

As a conclusion, I believe that after an initial rally, stock markets this year are at risk to suffer from growing pressure on profit margins and refinancing risks, while bond markets could face another year of losses if yield levels turn higher once more, although I am also convinced the worst is behind us. At the same time, global financial (in)stability may become a key risk in 2023, as both liquidity and credit continue to tighten, as central banks keep nominal rates high and attempt to further shrink their balance sheets. All in all, hardly a great investing environment, but one a flexible investment strategy has a better chance of mastering.

**2022 – How did we manage our investors' funds?**

For the benefit of new and potential investors, I would like to dedicate a bit more time and space here to a portfolio management review. But before I begin, please do note that…

**Any investment analysis, views, and outlook included in this document are based upon current market conditions and reflect the opinion of the author. All information was compiled from sources believed to be reliable, but no representation or warranty is made as to their accuracy or completeness. Seasonal Reflections are issued to registered subscribers for information and entertainment purposes only and must neither be seen as an attempt to solicit an investment in individual securities nor in the Incrementum All Seasons Fund. Past performance is no guarantee for future results, and the value of the fund may go up as well as down. If you seek investment advice, please consult a licensed investment advisor, or do your own due diligence.**

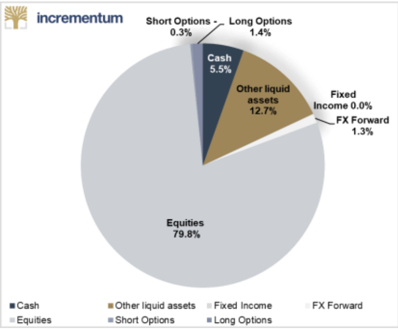
As the table below shows, 2022 was without a doubt nothing short of a spectacular year for our **Incrementum All Seasons Fund (IASF)**.

| | USD-I | EUR-I | EUR-R | EUR-V | CHF-I | CHF-R |
|---|---|---|---|---|---|---|
| **Latest NAV:** | **173.31** | **165.42** | **161.29** | **101.40** | **161.42** | **100.18** |
| **December Performance:** | -1.35% | -1.61 | -1.63% | -1.67% | -1.80% | -1.99% |
| **2022 Performance:** | **39.39%** | **37.95%** | **37.44%** | **N.A.** | **36.40%** | **N.A.** |
| **Since Launch p.a.:** | 16.64% | 15.13% | 15.76% | N.A. | 14.34% | N.A. |

A roughly 40% gross gain for the year, incl. total expense ratios (TER 1) of 1.37% / 1.78% / 2.12% for I-/R-/V-share classes (EUR-V and CHF-R share classes were only launched during 2H2022), becomes even more noteworthy when it is compared to double-digit losses that average competing strategies delivered.

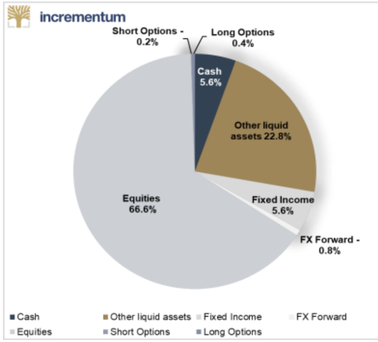
An argument I have often encountered in recent weeks and months is that this was all due to the fund's "*commodity exposure*", and thus is unlikely to be repeated. While I agree with the latter, as this kind of performance has to be exceptional, I disagree with the former. And the reason can be found in the chart on the right, which depicts the 2022 performance of the three major asset classes last year, and highlights that even commodities after a strong first half gave up almost all gains over the course of the year.


Financial Times, 30DEC2022



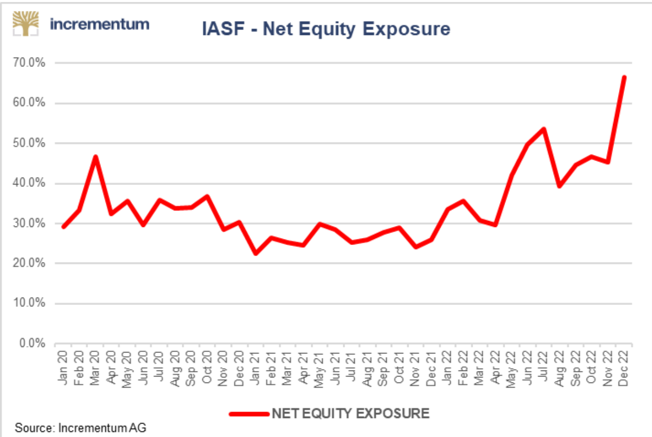

**IASF** Asset Allocation, Year-end 2021

But before we venture into further details on the driving factors of last year's performance, let's start with a look at how we entered the year 2022 (see pie chart on the left), namely with 80% gross equity exposure, zero allocation to bonds, and the balance in cash and other liquid assets.




**IASF** Asset Allocation, Year-end 2022

When we exited 2022 12 months later (see graph above on the right), gross equity exposure had fallen to 67%, fixed income made up 6%, and the balance of 27% was cash and other liquid investments.




On first glance that might appear simply the result of equity losses and a more defensive positioning in an overall weak market. But the truth is different and told by the chart on the left, which shows **IASF's** net equity allocation (i.e., gross equity allocation minus short equity index futures positions) rising from a cautious 26% at the start of 2022 to 67% by year-end. Or in other words, equity market hedges (mainly Nasdaq 100 and S&P 500 shorts) were reduced from 54% to zero over the course of the year.

This reduction and final elimination of equity market hedges did not happen mechanically, but in line with the developing market season. As the graph shows, we reduced our hedges by mid-year into the then developing market weakness, before increasing them again.

Taking a specific example, we closed about 85% of our entire Nasdaq short position (@ 11734) in June, before reinstating it from end of July (@ 12851) into August (@ 13315 and 13500).

And as the table on the right shows, our expectation that big tech was overdue a day of reckoning, which was the main justification for our Nasdaq shorts, was spot on.

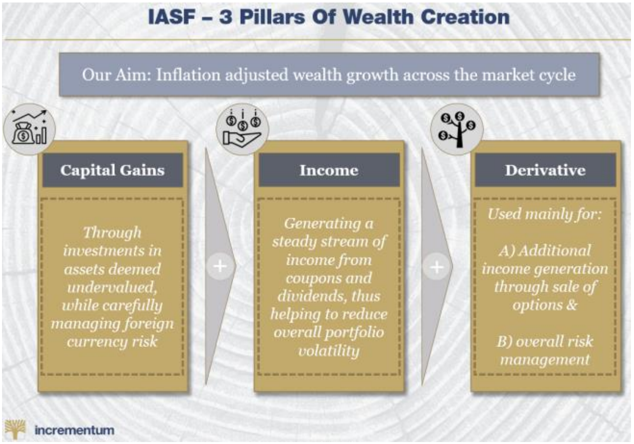
| | Performance since Peak | Current Market Cap - $Billion | Market Cap at Peak - $Billion | Market Cap Variation | EST P/E |
|---|---|---|---|---|---|
| META | -68% | 310 | 1077 | -767 | 13 |
| GOOGLE | -43% | 1127 | 1995 | -868 | 18 |
| DISNEY | -58% | 156 | 366 | -210 | 21 |
| NETFLIX | -60% | 127 | 306 | -179 | 28 |
| APPLE | -28% | 2033 | 2980 | -947 | 20 |
| MICROSOFT | -38% | 1770 | 2576 | -806 | 25 |
| AMAZON | -56% | 843 | 1882 | -1039 | 83 |
| TESLA | -74% | 388 | 1235 | -847 | 30 |
| ARK INNOVATION | -81% | | | | |
| NASDAQ | -35% | | | | |
| TOTAL | -54% | 6754 | 12417 | -5663 | |

@TheKingCourt, Twitter, 30DEC2022

All told, **IASF's** equity short index positions had a very meaningful impact on **IASF's** portfolio performance last year, contributing approx. 15% to 2022 results (calculated based on the fund's average capital over the year), and thus explaining part of last year's extraordinary performance. Given equity markets have lost nearly a third of their inflation-adjusted value, this is unlikely to be a similar performance driver in 2023. – I will comment further on current positioning further below.

Now, let's have a look at what else can be relatively easily singled out as performance driver.

As investors may know, in our portfolio management we focus on income generation as one of **IASF's** pillars of wealth creation, which mainly stems from deposit interest and bond coupon payments, as well as dividend income from equities. The former was negligible last year (deposit interest was minuscule, while coupons received balanced against interest accrual paid upon bond purchases), but the latter brought in dividend income of EUR 2.76m, representing 5.1% of end-of-2021 AuM, or 4.5% on average weighted capital over the year 2022.




Moreover, we also use derivatives as our third pillar of wealth creation, and in this area, we have been actively participating in options markets, mostly by selling short-term calls and puts on the fund's existing equity holdings and occasionally on foreign currency exposure. Our approx. 150 individual option transactions generated net premium income of EUR 4.42m, which represents 8.2% of end of 2021 AuM, or 7.1% on average weighted capital over the year 2022.

In other words, approx. 26% of last year's total return was due to our hedging plus income generated from dividends and volatility harvesting (via the sale of options). The balance is due to our long portfolio positioning, and of course is the result of our **Hits** and **Misses**, which I would like to talk about in the following in more detail.

First, we are not big risk takers and do not run a concentrated portfolio. At the end of 2022, we held 3 precious metals ETFs (physically backed), and one trend following hedge fund, as well as 8 different bond positions, all as part of our '*Other Liquid Assets*'. We held 5 long call options on equities and equity indices and 12 short equity options (which is actually a below average number). 16 individual FX forward and swap contracts were the result of our ongoing FX risk management. And our equity book had a total of 116 holdings (16 in **Shipping**, 22 in **Energy**, 9 in **Other Commodity Producers**, 16 in **Gold And PM Mining**, 5 in **Infrastructure / RE**, 6 in **Japan Value**, 6 in **Emerging Markets Value**, 23 in **Disrupting / Growth**, and 13 in the **Various** category).

Especially the number of individual holdings may raise some eyebrows. However, it is important to realize that we do also invest in small and mid-caps. Especially in our **Disrupting** / **Growth** bucket, positions are very small, given the option like character these often have, and while their number amounts to a fifth of all of our holdings, they only made up for 2% of AuM. That brings us to our first **Miss**, as our holdings in this particular theme category on average lost about 60% last year. – Quite the carnage, and a reason why we keep these positions very small. – In good years like 2021, there were quite a number of multi-baggers in this bucket, but last year it contributed an approx. 3% negative performance.

Another **Miss** was our extremely poorly timed foray into Russian equities in early / mid-February 2022, when we bought approx. EUR 1.4m worth of Russian equity funds. – Ouch! Subsequent to Russia's Ukraine invasion these funds had their redemptions been suspended and they were later written off to about EUR 80k, again resulting in a more than 2% negative performance contribution.

While we're at the subject of **Misses**, and for illustration purposes, I would like to mention two very disappointing stock picks. The first is **Equinox Gold**, which as a result of a fairly leveraged balance sheet, higher cost of (gold) production and surprisingly disappointing operating performance, saw its share price lose 48% last year. This overstates the actual loss for **IASF**, as we added to our position over the course of the year for as low as CAD 5.50, while earning some income from the sale of put options. But overall, I would call this our biggest disappointment last year.

The other example is **Alibaba**, and I want to spend a bit more time on this to illustrate what we mean with active investing: We first bought into China's leading e-commerce juggernaut in Sep 2021 at USD 150 (3,800 shares), which at the time seemed a rather attractive toe-in-the-water entry price.

Subsequently, we wrote 1 month Puts (@ strike 145), which expired worthless, followed by Calls (@ 180), which suffered the same fate. Third time proved (not so) lucky, as the next batch of Puts (3,000 shares @ 140) were exercised in December. This lowered our original entry cost to 139, but we also increased our holding by 75%, exiting 2021 with Alibaba holdings worth USD 950k (or approx. 1.8% of **IASF's** portfolio value).

Alibaba chart since Sep 2021, investing.com

Another two expired option trades later, we were again "unlucky" on the third, adding a further 3,000 shares at USD 110, bringing the resulting total of 9.800 shares to an average entry price of USD 126. If anyone has spotted a pattern by now, it did indeed repeat (if investing was only that easy…), as again two options expired before we added another 3000 shares through an exercised Put option at USD 90 in August. This further increased our holding to 12,800 shares, while reducing our average purchase cost to USD 117.50.

Please bear with me here, as I finish our Alibaba trading report, which features one more Call option sold (strike @90) in August, which subsequently expired, and by year-end left us with a position of 12,800 shares at an average cost of USD 116 per share. The stock closed the year at USD 88, which was 26% lower than the USD 119 at which it entered the year.

So, why go into such details, you may ask? – Well, investing is all about uncertainty. It starts already with individual investment selection, which in our case is always done on valuation grounds. When we decided to buy into Alibaba in 2021, it was exceedingly cheap already, both compared to its own growth expectations as well as its major Western peers, which in our view more than compensated for the added political risk. In addition, overall investors' sentiment towards China was as bad as I had ever experienced it in nearly 30 years following this market. And yet, our timing proved less than perfect, as the market disagreed with our assessment, and sold off the shares further in 2021 amid a perceived further rise in China risk, and then still further in 2022, though that proved far more in line with Nasdaq and the overall equity market.

At the lows on October 24 last year, the shares hit USD 58, which was about 62% below our original entry cost in 2021. Many investors find it hard to deal with the stress of such rapid and dramatic book losses, but investing does require patience, and since we remained convinced in the fundamental case, we had already brought down our purchase cost. Eventually, our patience was rewarded with the subsequent rally, which brought the stock back up to USD 88, and as keen-eyed readers may have spotted to USD 114 per share at the time of writing, which has brought us back to break-even levels.

Of course, Alibaba delivered a negative performance contribution last year, and thus belongs to our **Misses** category. But with China's post-Covid opening-up and given not only the dominant position the company holds as the country's largest e-commerce company, but also its various other business units and growing international business, its strong balance sheet and attractive valuations, it has now become part of our Emerging Market Value bucket, and we are quite confident that it will be a meaningfully positive contributor in 2023.

Now, let's have a look at last year's **Hits**, a number of which could be found in our **SHIPPING** book. We already made very healthy profits on tanker stocks in 2020, when (freight) rates shot higher as oil tankers were used to store surplus oil amid the sudden drop in demand at the onset of the Covid pandemic. As usual, when we deal with cyclical sectors, we took significant profits back then, though had maintained some positions and rebuild them towards the end of 2021, as share prices had been falling once more amid plunging rates.

At the end of 2021, we held positions in **DHT**, **Euronav**, **Frontline**, **Hafnia**, **International Seaways**, **OSG**, **Scorpio Tankers** and **Teekay Tankers**, which are all active in the transport of dirty (crude) and clean (refined) oil, and which accounted for 8% of the fund's holdings. At the end of 2022, we maintain (reduced) positions in **DHT** (+71% price performance), **Frontline** (+87%), **Hafnia** (+190%), **International Seaways** (+152%), and **Teekay Tankers** (+182%). We exited **Euronav** when the merger with **Frontline** was announced, **Scorpio Tankers** too early (and mainly because of questionable corporate governance and elevated leverage), and **OSG**, which was always only meant as a trade – and all at decent profits as well. We also traded **Torm**, a Danish tanker firm specializing in the transport of clean product, initiating our position in early April at an average USD 8.85 and exiting it gradually at 13.80 (+56%) and 14.70 (+66%) in June, selling further lots through the exercise of Short Calls at Strike 17.50 in August, which including the option premium earned us USD 18.50 (+110%), and the remaining shares at USD 28 (+216%) by November. (All performance numbers listed were before dividends.) – And the above record misses **Stolt Nielsen**, which is a chemical tanker and storage / logistics company out of Norway, which has been a longer-term holding of the fund and doubled last year, again before dividends.

So, tankers were red hot last year, and we have greatly benefited from it. Meanwhile, dry bulk was lacklustre, seeing a massive rally during 1H, before ending 2022 more or less at the starting prices of the year. As **Belships** (2022 +1%) and **Pacific Basin** (2022 -8%) have been regularly showing up among the fund's top holdings, perhaps we should have a look at their longer-term charts.

**Belships**, since first purchase (@ 6.10) in Dec 2019, investing.com

**Pacific Basin**, since initial purchase (@1.38) in July 2019, investing.com

At a year-end price of NOK 14.28, Belships shares are up 134% since our first purchase, while Pacific Basin shares have gained 107% (both in local currency). – But what about dividends?

One reason for our plentiful overall dividend harvest, which helped to generate the before mentioned net dividend yield of 4.5% on average capital employed, despite of having on average had only two thirds of the portfolio invested in equities in the first place, is that we have some outstanding dividend payers in the portfolio, including our two dry bulk favourites. **Belships** paid out a gross total of NOK 4.65 per share last year alone, which based on the end of 2021 share price resulted in a dividend yield for 2022 of 33%, or 25.74% net (after withholding tax, which we are working with our fund administrator to partly reclaim). **Pacific Basin** last year paid out HKD 1.12 gross (and net, as there is no withholding tax for HK company dividends), which represented a 39% dividend yield for the year.

These extraordinary distribution levels reflect the excellent freight rate environment of 2021 (especially 2H) and into 1H022, as illustrated by the Baltic Dry Index (BDI). As the chart also shows freight rates have been coming back down to earth lately, which has had investors' sell off these stocks, including our two favourites.

Baltic Dry Index, tradingeconomics.com

But was that justified?

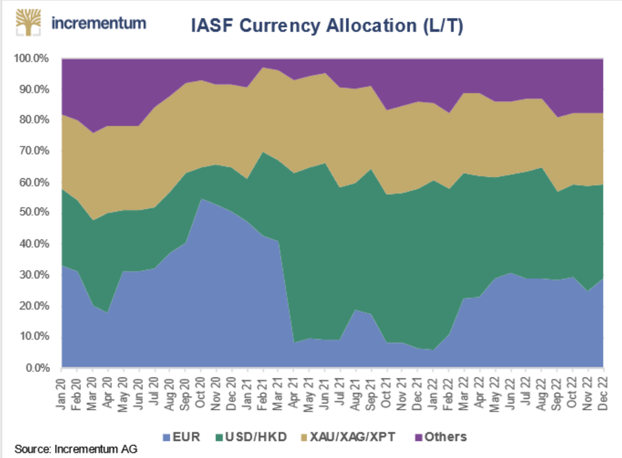
In our view, investors' have been paying little heed to the fact that the BDI is heavily weighted towards cape-size vessels, which are the largest ship category, while both **Belships** and **Pacific Basin** are owning smaller sized vessels, where rates have held up far better. In addition, it also does not take into account longer-term charter arrangements, nor does it reflect the ongoing rise in new built- as well as second hand-vessel prices, and the record low new order book in the sector. Hence, share prices are now trading again well below NAVs at a time where China's reopening looks like a suitable trigger for a renewed rally in freight rates (and thus share prices). – But **PLEASE NOTE** that all this is only meant for illustration purposes, and not meant as a recommendation.

Of course, there were other **HITS** last year. Long before Goldman Sachs began to talk about the revenge of the real economy, we had been pointing out the ridiculous discrepancies in valuations between hard assets and so-called long duration assets. And that has paid off last year, as for example our energy book was littered with winners, e.g., **Tidewater** (+244%), **Peabody Energy** (+162%) or **Technip FTI** (+132%). In the **ENERGY** basket, we have also been actively trading around existing positions (incl. the use of options, where Peabody Energy options generated nearly EUR 500k in premiums over the past two years).

All in all, we had a net positive contribution from our equity book last year, with **SHIPPING**, **ENERGY** and **JAPAN VALUE** the drivers, whereas **DISRUPTING / GROWTH** and **GOLD AND PM MINING** were mostly detracting.

I would like to conclude this section with some comments on currency risk in a globally invested portfolio. Frankly, I have always found that this may be one of the most underestimated risk- / return sources, and an area, where investors' either decide to systematically hedge foreign currency exposure or not, rather than to use it as an active source of portfolio alpha.

In our **IASF** presentation we include the following chart, which records the fund's currency allocation to **EUR** (the fund's base currency), **USD/HKD** (as the latter is pegged), **precious metals**, and **other** currencies. For 2022 it shows how we reduced our **USD/HKD** exposure from 55% to 30% over the course of the year. We thus took advantage of excessive USD strength by hedging part of our exposure, and thus logging in foreign exchange gains, which also helped to bolster last year's returns.



Source: Incrementum AG

These observations are all on a "look through" basis, i.e., we consider the actual economic interest when deciding what currency exposure any investment has. That means that for example energy or shipping stocks are always regarded as USD businesses, regardless of whether they are located in the USA or elsewhere.

I hope that all this helps investors to better understand not only how last year's results were generated, but also how we manage **IASF's** portfolio.

That concludes this review section, and I will now say a few words about our current positioning and outlook for 2023.

**2023 – Portfolio positioning and outlook**

2022 was clearly an exceptionally good year. In many ways it was my best year ever and is most comparable to 2000, the year after the last technology bubble popped, when my long only exposure to "old economy" stocks made a huge difference to my long-term portfolio management performance.

Does that mean I expect this to be a one-off? – Sure, 40% net gains with what is essentially an unlevered investment strategy will be very hard to repeat. But as I go into 2023, I cannot say that I do not see good opportunities, and I am confident that the **Incrementum All Seasons Fund** will be able to continue to deliver meaningful long-term real returns, especially as it seems quite a long way until the next big bubbles develop. (One could argue that the recent specimen (growth / tech and bonds) is still in the process of deflating.)

At the start of the new year, it is always helpful to step back and have a look at the bigger picture in order to see where the major head- or tailwinds may come from. Sometimes I even find a quote that perfectly captures my own view:

"*During the **past** decade, the nurturing forces of globalization and unconventional central banking supported the capital markets nirvana of **low inflation, low interest rates and low volatility**. In such a forgiving environment, financial assets flourished. Today, despite significant disruptions to this investing trifecta throughout 2022, consensus still expects these benign conditions to re-establish themselves, sustaining the rich valuations which have become the norm in recent years.*

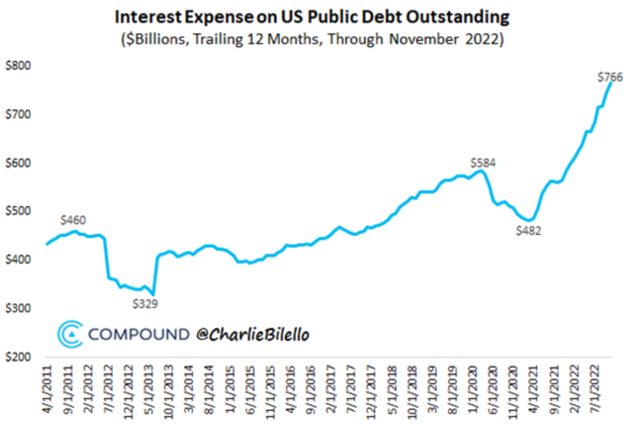
*During the **next** decade, however, critical changes to global market dynamics will result in a more inhospitable investment regime of **higher inflation, higher interest rates and higher volatility**. This challenging combination will degrade prospects for global economic growth, resulting not only in lower asset prices, but also driving long overdue rationalization of poor credits and legacy malinvestment. Because the defining characteristics of the new global regime appear to be systemic, investors are likely to be surprised by the depth and duration of future market weakness. In the protracted environment of declining asset prices and debt rationalization we foresee, gold's portfolio utility as diversifying store-of-value should soar, even among institutional investors.*

*Drilling down a bit, what are the underlying forces driving this new investment regime? Well, working from the grassroots up, decades of economic financialization and interest rate suppression have fostered gaping and unsustainable wealth disparities in most Western nations. Consequently, economic equality and progressive political movements have become increasingly influential societal forces. Similarly, anti-capitalist disenfranchisement is driving heightened environmental focus and the championing of ESG commerce. Combined with rapidly souring geopolitics, these trends are reinforcing movements of resource nationalism and deglobalization. Finally, **all** developed economies (including China) are facing daunting demographic challenges of declining populations.*

*Importantly, all of these trends are inflationary, and none are transitory. This means that, at least for the foreseeable future, these changes are permanent, with significant implications for investment prospects of a wide range of asset classes. By way of example, it seems logical that the new regime will favour cash, commodities, and hard assets over high-growth, high-multiple or highly leveraged companies. Yet, outside a few high-profile unicorns, financial markets have barely adjusted to the realities of the new global regime. Consensus still believes valuation measures, investment strategies and correlations of the recent past will work in the future, and they will not. The game has changed, and financial markets are no longer an exclusively buy-the-dip scenario."* (Author is unfortunately unknown. I sincerely apologize for having failed to register the origin of this quote, and I would rectify this and give credit to whoever so accurately described what is largely my own view of the investing world right now.)

In our Seasonal Reflections 2022 / 01, we anticipated the return of inflation and took the view that the level of purchasing power debasement will not return to 2% or below for a long time. That view still stands, though 2023 will certainly be subject to meaningful base effects and slowing demand amid the move into recessionary territory, which could cause inflation rates to fall back towards the 3-4% level on a year-over-year basis. But does not news like this recent FT alert strongly suggest that inflation stays? – How else can the real (i.e., inflation-adjusted) burden of debt be lowered if not by inflation?


@SchiefenHg, Twitter, 24JAN2023




The Week in Charts (12/20/22), Charlie Bilello, Compound Advisors

And don't charts like the one on the left scream "Financial Repression" at the top of their lungs? – Hence, we don't see any reason to alter the heading on **IASF's** website just yet…


Financial market seasons have been increasingly influenced by the end of the secular debt cycle and are accompanied by financial repression and long-term negative real interest rates. We aim to tackle these changes with a global, benchmark independent, all-seasons investment strategy.

Incrementum All Seasons Fund Homepage

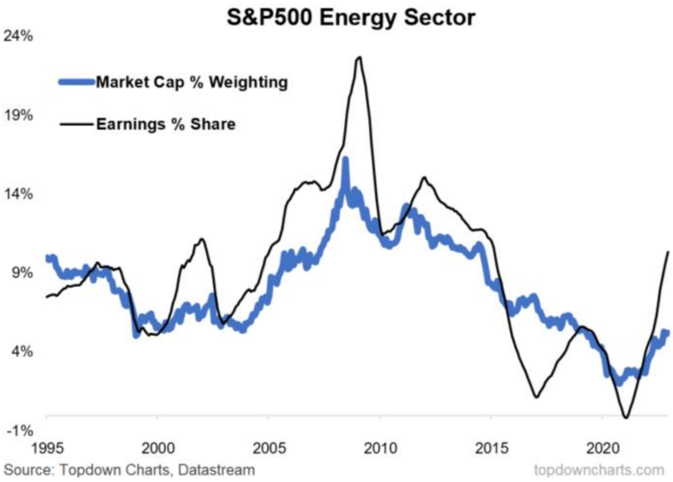
What in the described context has surprised us last year though, is how controlled the increase in Euro-area interest rates has happened so far, and we anticipate more trouble on that front over the course of this year, as European government bond yields are far more deeply negative in real terms than US yields. Worth watching are also Japanese 10-year yields which were originally capped at 0.25%, a cap that was lifted to 0.5% in December and is anticipated to be abolished over the coming months.

In "*no shortage of shortages*" we laid out the case for commodity investing last year, which did work out quite ok, though actual commodity price changes over the course of the year were far less bullish than in 2021.

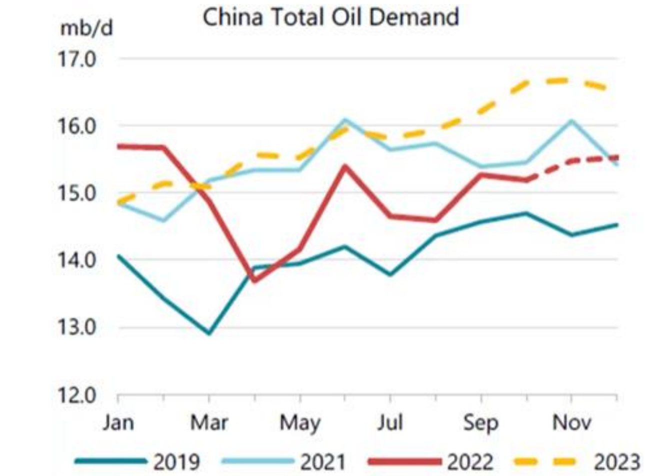
But as the previous chapter showed, there was a clear catching-up effect on the equity side, as commodity equities began to adjust to expectations of higher for longer commodity prices. – Does that mean that we have seen the best in this sector?


U.S. Global Investors

Clearly not, as investors are still pricing commodity producers as inherently cyclical businesses, which means that neither a higher-for-longer price and margin environment nor greatly improved balance sheets have been properly priced in.




The Weekly S&P500 #ChartStorm, Callum Thomas, 22Jan2023

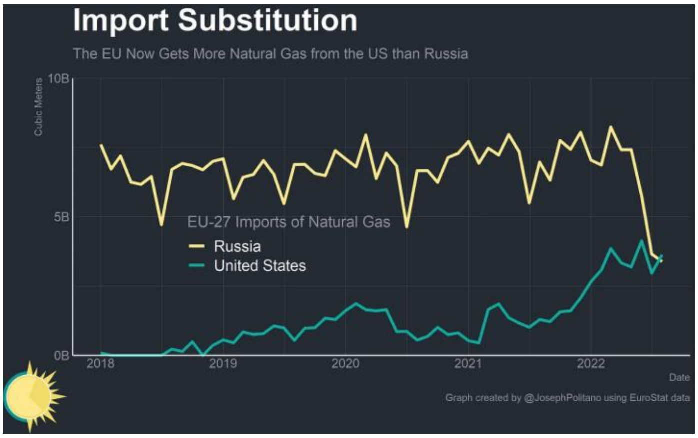



Unhedged: The China Reopening Trade, Financial Times, 11JAN2023

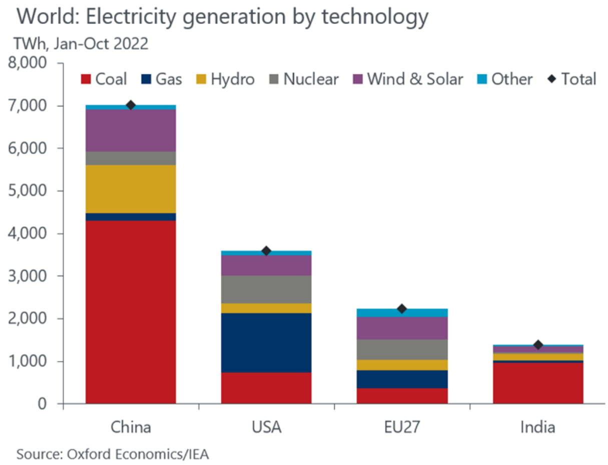
Let's use energy as an example, where oil (and gas) prices have recently weakened amid a milder winter in Europe (causing less actual demand) and the ongoing high level of Russian exports (maintaining supply at higher than anticipated levels). This has caused speculative momentum in the oil market to reverse to some degree as well. But profitability in the sector is finally recovering from the depressed levels over the past five years, while oil demand is expected to benefit from the China (post-Covid-) reopening and ongoing OPEC supply discipline.

From a value perspective, oil (and related energy) companies still appear very attractively priced, considering the backdrop described best as follows: *"With years of under investment now being amplified by recent geopolitical factors, global spare capacity for oil and gas has deteriorated and will likely require years of investment growth to meet forecasted future demand."* (Baker Hughes CEO)

This is why **IASF's** largest position remains in energy (18.3% at the time of penning these lines on Jan24), split into predominantly North American oil, gas and coal producers (8%), oil services firms (6.8%) and uranium producers (3.5%), as the US is the main beneficiary of Europe's decision to cut itself from Russian energy.



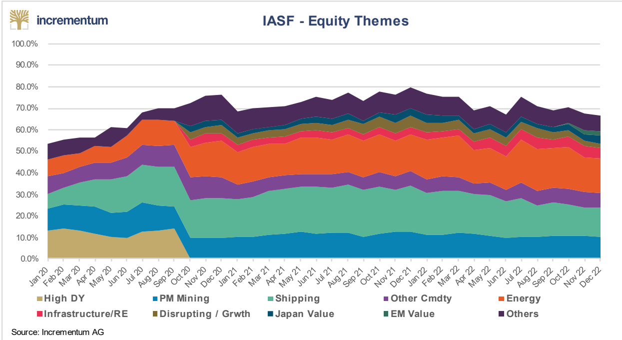

Apricitas Economics, 24NOV2022

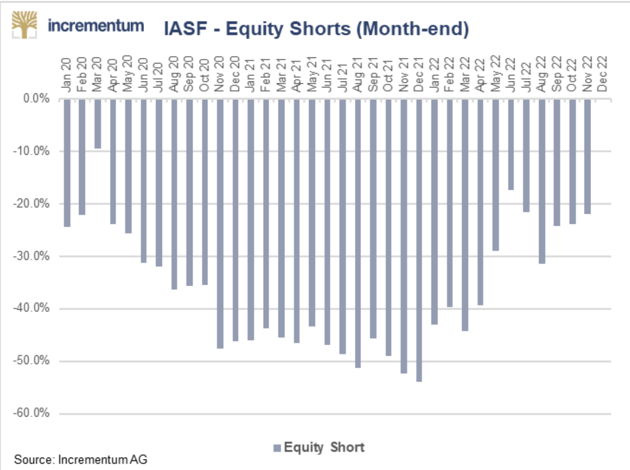



@DanielKral1, Twitter, 16Jan2023

And, yes, **IASF** continues to hold small exposure to coal production (directly through Peabody Energy, as well as indirectly through Teck Resources and of course Glencore, though the latter two are not in our energy bucket), which remains an important global energy source. To those merely focusing on saving the planet that may seem unacceptable. But not everyone can afford to pay the price advanced economies are currently paying for clean energy sources and the energy transition. And here it is crucial to recall that if our policies are increasing the price of clean fuels, the rest of the world will have no choice but to afford the cheaper and more dirty alternatives. Meanwhile, the mood (as well as political narrative) in advanced economies is best described by a lot of people cheering for the energy transition but opposing mining, which is an obvious case of having your cake and eating it, too…

But returning to **IASF's** equity themes, it is important to point out that these (and thus neither our investment in **ENERGY** or **SHIPPING** or any others) are not cast in stone. If at some point we find industries or themes with significant tailwinds, we will reduce and weed out the current crop and establish new ones (as recently done with **EM VALUE**).




As mentioned earlier, we are also flexible with our net equity exposure, i.e., there is no systematic hedging of risk. Lately, I have conducted many investors' calls, and one thing that was often lauded was **IASF's** "hedging". Here it is important to understand that **IASF** does not run a long-/short book, but that any hedging, on the equity or foreign exchange side, is always done on an opportunistic basis and based on our assessment of overall market valuations and conditions.

This explains why we have once again wound down our equity hedges, having concluded that there may be more short-term upside to equity markets, as investors anticipate reduced inflation and an eventual central bank pivot. But as equity market valuations remain elevated overall, we will monitor the situation and remain flexible as to our use of this portfolio management tool. Ultimately, our focus is on creating value for our investors, who are trusting us with this flexibility, which is also embedded in the fund's overall mandate.

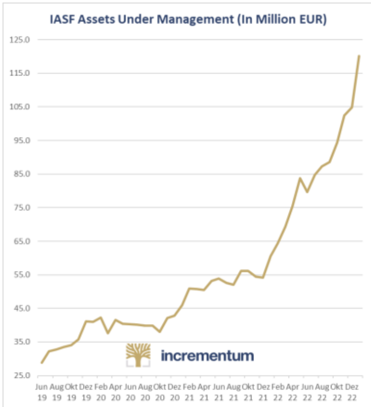
Our goal as asset managers is real wealth creation, not tracking or attempting to beat a particular asset class or index. This may happen in fits and starts, as performance from risky investments is rarely achieved in a straight line, and we have yet to find a magic crystal ball. All we can do is assess, analyse, and forecast, be honest (with investors as well as ourselves), nimble and humble. If we do that, we will be able to successfully navigate **IASF's** portfolio through even the roughest sea, and even the kind of dramatic purchasing power debasement that has always been a feature in the world, but may be coming to a place next to you…


@Chris_Mischler, Twitter, 20JAN2023

## FINAL WORDS: THIS IS NOT INVESTMENT ADVICE!

**As author of this newsletter and responsible fund manager of the Incrementum All Seasons Fund, I must remind readers that all views expressed in this report, especially those concerning the fund's individual investments or investment strategy, are biased, and not tailored to their individual needs. And although I write this commentary with care, I cannot vouch for the accuracy of each statement made herein. Seasonal Reflections are issued to registered subscribers for information and entertainment purposes only and must neither be seen as an attempt to solicit an investment in individual securities nor in the Incrementum All Seasons Fund. Hence, if you are looking for investment ideas or advice, always consult a licensed investment professional! And remember that past performance is no guarantee for future returns and that all investments involve risk, including loss of principal.**

And now it is time that I bring these SR to a close. January is already in its final stretch, and due to the various awards and top rankings **IASF** has gathered in recent months, we are very busy dealing with a flood of enquiries into our secret investment sauce as well as related new asset inflows, for which we are very grateful.




I hope these pages help to show that there is nothing secret about what we do and how we invest. And yet, **IASF's** investment approach remains unique, as true investors have become a rare species after decades of passive investing and indexing.


And with that I would like to close this issue of my Seasonal Reflections. As always, I welcome readers' feedback by e-mail, and sincerely thank you all for your interest and our investors for their trust and support. And considering the season, **I would like to especially wish our readers and friends in Asia a happy and prosperous Chinese New Year of the rabbit!**

Greetings from Schaan, Liechtenstein!

Best regards,
Hans

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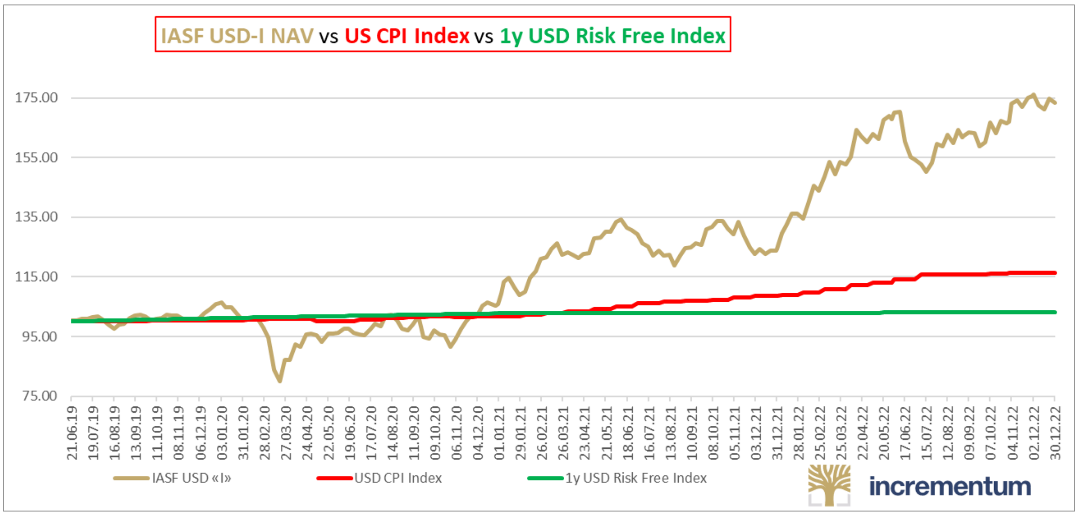
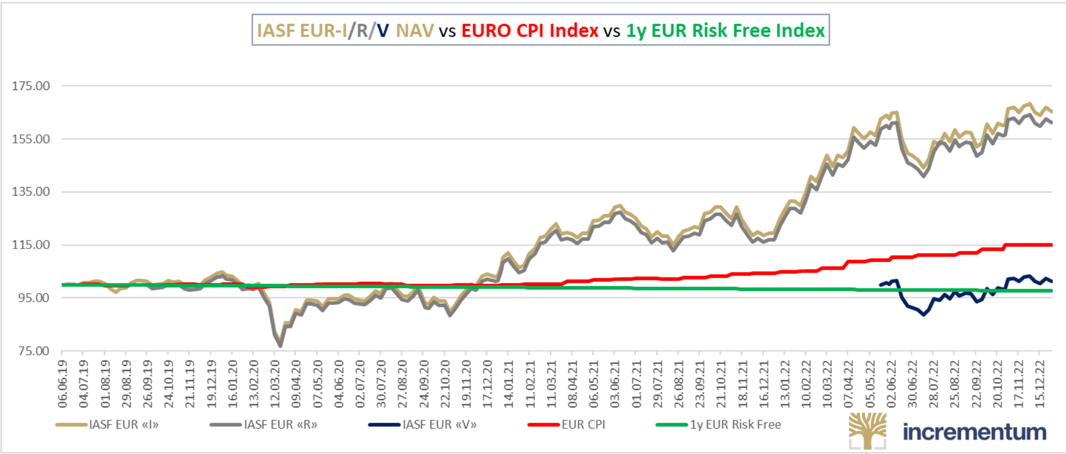
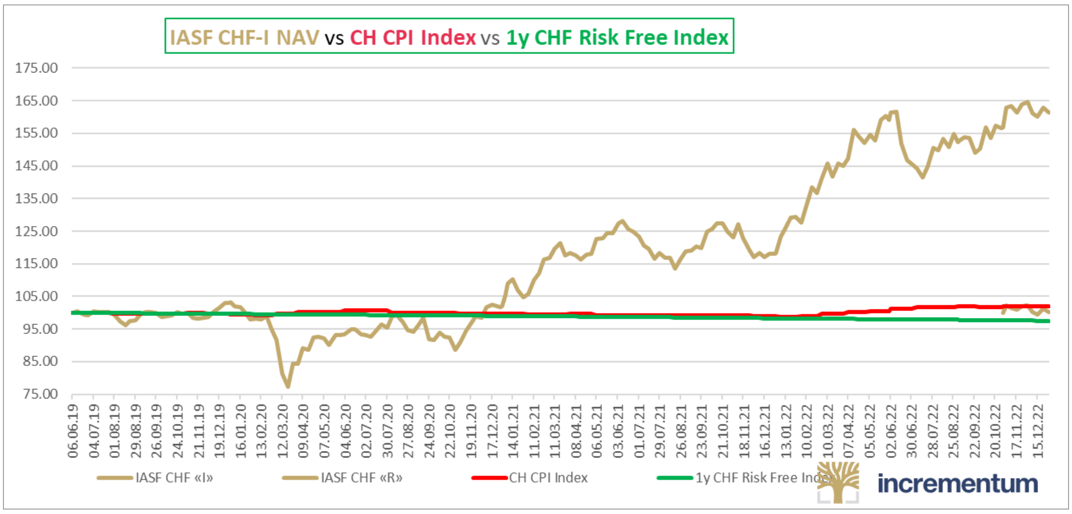
## Appendix *




* Graphs display NAV of IASF performance until last valuation date (**31DEC2022**), compared to the respective risk-free 1y-government yield, as well as the relevant CPI Index in respective currency as a proxy for the loss of purchasing power from the start of the investment period (6Jun2019 for 'I' shares; 26Sep2019 for EUR-R shares; 20MAY2022 for EUR-V 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.

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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.