Incrementum All Seasons Fund

– in pursuit of real returns –




2023 / 03

Seasonal Reflections

Echo bubbles & rose-tinted glasses

Dear Reader / Investor,

It's summer, and Liechtenstein has turned seasonally quiet, as its citizens have headed for their preferred vacation destinations. Despite of an increasingly one-sided political debate to fight global warming, from anecdotal evidence these still seem to be preferably in the south of Europe, which one could conclude underscores the actual resilience and adaptability of our species.

Personally, and ever since our girls left school as well as the parental nest, my wife and I prefer to stay in Liechtenstein during the summer. With the luxury of an air-conditioned office and well-insulated home office, even temperatures above 30 C are hardly a bother. And when we venture outdoor for longer stretches at such temperatures, we prefer higher altitudes, where the temperatures are far more pleasant and the views truly spectacular.

Bad Ragaz / Pizol, 18JUN2023, HGS Pic

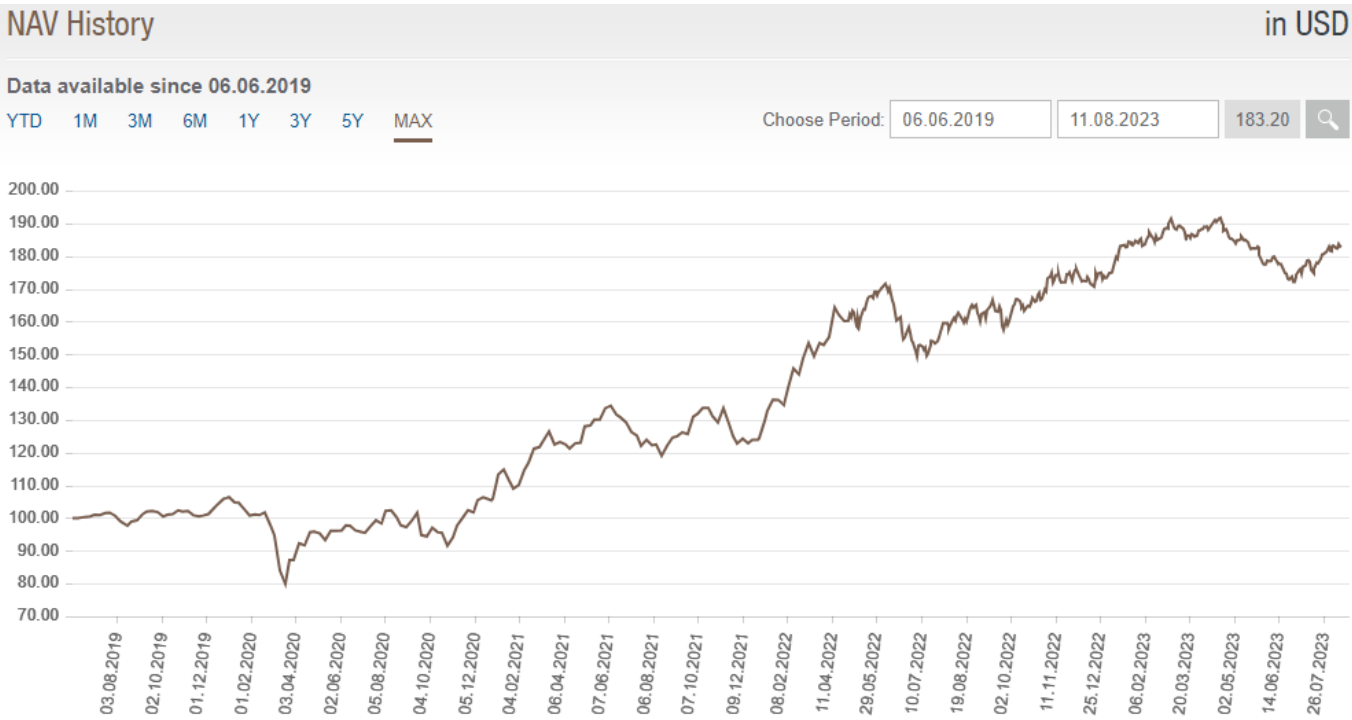
Given the summer holiday season, I would like to recommend a book I recently finished. Despite of its big-mouthed title, "How the World Really Works" has proven *"an essential analysis of the modern science and technology that makes our twenty-first century lives possible"*, and I found Vaclav Smil's *scientist's guide to our past, present and future*, a fascinating, well balanced and highly informative read.

Table of Content (all underlined passages in red are active weblinks!):

4 YEARS OF IASF

Almost exactly four years ago, I branched out on a new path of my professional career by joining **Incrementum AG** as fund manager. My intent at the time was to setup a fund that incorporates my own All Seasons investment approach and strategy developed over thirty years of working with international high net-worth individuals, which would allow new investors to co-invest with me and the fund's seed investors.

Launching a fund has come with its own challenges, but overall, our early and long-term investors have had few reasons to complain. While the 2H of 2019 was dominated by the task of setting up the **Incrementum All Seasons Fund (IASF)** and the initial fund raising, we delivered a first inflation-beating return of 6.1% (over 6.5 months). 2020 began with unexpectedly heavy weather, but as the chart below shows, we managed to get through our first (Covid-19-induced) NAV drawdown of 25% (3.1.-20.3.2020) relatively unscathed, as **IASF** finished the year essentially flat (-0.3%).



IASF NAV – USD-I shares (IFM)

2021 turned out a better year, even if it came with its frustrations amid the excesses of the Everything Bubble as well as the headwinds we experienced by a sudden (mainly energy-driven) NAV drawdown in mid-year (10.6.-19.8.2021: -11.4%). This however did not prevent **IASF** from delivering a respectable (inflation-beating) gain of 17.5% for the whole of 2021.

And then came 2022 with a first serious leakage of air from the Everything Bubble, as soaring inflationary pressures put an end to the myth of never-ending zero interest rates. But despite of another intra-year NAV drawdown of 12.9% (between 6.6.-6.7.2022), **IASF** managed to return 39.4% in a year 2022, which will be remembered for its high double-digit losses.

By now we have passed the half-way mark of 2023, and after a solid start (+10.5%), **IASF** has recently encountered another drawdown. As the chart on the previous page shows, it has so far stretched from 18.4. (NAV USD 191.64) to 28.6. (NAV USD 172.12) for a 10.2% decline. Of course, we are still in the unfolding resolution of this latest NAV setback, as since then the value of the shares has been climbing again, and we are confident that this will go a similar way than the prior drawdown occasions.

What is interesting to note in this context is how strong net asset inflows during the first four and a half months of the year have turned into outflows since. It seems that especially many new investors got caught wrong-footed and were particularly disappointed or surprised by this recent pullback, which in turn I found quite startling. It led me to explain the situation more broadly back in May already (only available in German, as we simply lacked capacity for an English translation), and I have here taken the opportunity again to show that drawdowns like the one we have experienced this year tend to happen from time to time.

When I try to come up with explanations for this recent turn to net outflows, then one may simply be that some investors have disregarded the well-known fact that past performance is no guarantee for future performance. Last year's nearly 40% return may just have been too tempting to resist, especially as it was contrary to the general market trend. Now that the relative return pendulum has swung to the other side, the enthusiasm has been swiftly disappearing. But to anyone who worries that **IASF** may be negatively correlated to overall equity market performance, I can only say that the fund is a global strategy fund and not a simple long-only equity fund. It generates alpha from various asset classes as well as our chosen currency allocation, and in the majority of cases our overall positioning has proven sufficiently prescient but then again occasionally it does not.

Another explanation for the apparent disappointment could be that investors have failed to understand **IASF's** mandate correctly. On our homepage and other marketing material we describe it as follows:

*The **Incrementum All Seasons Fund (IASF)** pursues a universal and global investment strategy, which covers all major asset classes, and flexibly manages its portfolio assets in line with the prevailing financial market season. As fund managers we pursue a theme- and value-orientated, rather than an index- and momentum-based investment approach, which is why we do not use benchmarks in our portfolio management process. We attach great importance to fundamental analysis and prefer direct investments to derivatives. The latter are primarily used for the purpose of risk management. Through our regular reporting, we aim to provide investors with transparency, both in terms of strategic investment considerations and portfolio positioning, as well as in terms of our assessment of the socio-economic and political developments that influence our investment decisions. Our objective is to achieve real, i.e., inflation-adjusted, growth in the value of invested asset over the market cycle, and in order to optimally align our interests with that of our investors the fund manager is also a co-investor in the fund.*

Perhaps this has left too much room for interpretation? – I imagine that some investors may have found the stated goal to "*flexibly manage portfolio assets in line with the prevailing financial market season*" as a promise to always move into the asset classes that are finding favour in the progressing market cycle. That would make us blessed with perfect foresight, which after more than three decades managing money, I or anyone else in the **Incrementum** team have unfortunately not yet been able to develop 😊. – What is meant with the subject statement is that we will adjust our overall portfolio allocation through the use of what we regard as appropriate hedging or risk mitigation tools to manage general market risk.

In hindsight, some investors may argue that we have not been flexible enough in that process, as we have pretty much built our hedges and kept them as the market went against them. But this is easy to say with hindsight. Moreover, it is also how we invest, and anyone reading our **Seasonal Reflections** or studying the fund's history would have found that we applied the same approach in prior years. The reason is that we are not traders, and our allocation decisions are always value-based in nature.

"As fund managers we pursue a theme- and value-orientated, rather than an index- and momentum-based investment approach" is thus another key statement. Here an important message may have gone lost, as I always assumed that being a value orientated "investor" is a synonym for having a long-term investment outlook. Moreover, the fact that we focus on investment themes with what we expect to be long-term tailwinds also means that **IASF's** performance can at times significantly deviate from broad market trends. Any investor who has taken the time to read "*our regular reporting*", especially these **Seasonal Reflections**, will hopefully agree that we have been providing *"investors with transparency"* about how we manage their assets.

"Our objective is to achieve real, i.e., inflation-adjusted, growth in the value of invested asset over the market cycle", highlights again that **IASF** is not a vehicle for short-term traders, but rather for long-term investors, who are prepared to hold their investment over a full market cycle, which can last from anywhere between 5 to 10 years.

But perhaps the apparent impatience with our approach merely shows how deeply passive investing has become ingrained in investors' psyche, together with the urge to compare with major market indices and the lack of patience in an active investment approach. Personally, I have always liked the level-headedness of **Howard Marks**, who in The Most Important Thing stated that *"The desire for more, the fear of missing out, the tendency to compare against others, the influence of the crowd and the dream of the sure thing – these factors are near universal. Thus, they have a profound impact on most investors and most markets. The result is mistakes, and those mistakes are frequent, widespread and recurring."*

But this "*dream of the sure thing*" in investing will always remain an illusion, and this is why I like his following conclusion, even if I have learnt that this is easier said than done: *"Rather than trying to figure out the future, try to figure out where we are in the market cycle, make adjustments if necessary when close to the extremes, and prepare mentally to avoid behavioral mistakes that plague investors throughout. The key is to watch for investor behavior that typically emerges, especially at the extremes of the cycle."* (Howard Marks, The Most Important Thing)

Personally, I have no shred of doubt that we are once again at an extreme of the cycle, which led us to be more cautious than was justified in hindsight. But as Niels Bohr or Mark Twain or another wise person once phrased: *"It is very difficult to make predictions, especially about the future."* – The fact is that we are all ignorant about the future, and I have yet to meet an investment manager (or AI) that has been able to consistently divine the charted course of financial markets. This is why I have concluded my personal 8 Investment Lessons (s. page 32) as follows: *"There is no magic formula for perfect investing. Hence, 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."*

And thus, I do hope that anyone reading these **Seasonal Reflections** and considering whether to make an investment or not will do so after careful thoughts about whether this is a suitable strategy, and he or she can find sufficient conviction to entrust us with their money long-term.

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P.S.: On the matter of trust, I have just had the following question from someone interested in the fund, *"How can an investor build trust into a fund which only has ~3 years of historic data?"*, to which I gave the following reply:

"Of course, that is for each investor themselves to decide. Is 3 years historic data enough? (IASF by now has 4.) – Or 5 years? – Or perhaps 10 years? – According to a recent Morningstar Study (Morningstar's European Active / Passive Barometer, Year-End 2022) almost 50% of funds close after 10 years, and only 30% make it to the 20-year mark, so that will increasingly limit your choice.

Moreover, a fund is an institutional investment portfolio, i.e., it can undergo all sorts of changes, starting from change of management team (the longer the track record, the more likely, because how many successful fund managers want to work longer than 20 years?), or adjustment to the overall strategy or execution thereof. Personally, I believe fund due diligence should incorporate a lot more than merely looking at past performance or other quantitative data. Here, of course professional fund rating agencies like Morningstar or Lipper do the work for anyone willing to pay for it."

IASF's overall strategy and goals are not going to change over the coming years, but as managers and investors we will of course constantly review our processes in order to further optimize our results. – After all, fund managers are also subject to greed and fear.

For your fund manager, the latter has been the more important, as I have always viewed things more sceptical than the market seemed to do. But is that such a bad trait when one manages money?

I have always found that avoiding major losses is a more important recipe for long-term investment success than trying to shoot for the stars. Hence, I am not too worried if **IASF** has periods where it lags behind major stock market indices. For anyone, who simply wants to track DAX or Nasdaq, there are cheaper tools to do this. For me and us the most important thing is to manage the downside risk, as major losses are very difficult to recover, and that is something I have always done well.

Overall, I am confident that if we continue to stick to our overall approach, we will keep our place near the top of the class even over 5 and 10 years of track record. And I am optimistic that we can attract further investors who share our vision and have sufficient trust in our work and expertise to stick with us even during challenging periods.

ON THE IMPORTANCE OF DEBT

For anyone who wants to understand our investment approach, it is essential to first take note of the few lines that grace the top of **IASF's** website: ***"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."* – We have placed this statement so prominently because we are convinced that the resolution of the secular debt cycle will above all else mark the coming decade and thus have a tremendous impact on investors.

To understand our framework, we have outlined our progress over the past decades to the present situation in **IASF's** presentation as follows:

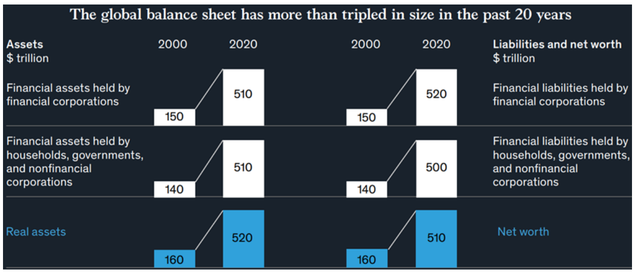
- *The past two decades have witnessed increasingly interventionist economic policies, with monetary policy the primary tool to smoothen out economic cycle contractions (aka Greenspan Put).*
- *This resulted in the manipulation of interest rates towards and below the zero bound, which has fuelled massive long-term debt accumulation both in the private as well as public sector.*
- *Meanwhile, well behaved goods and services prices suggested inflation was dead, or permanently subdued by technological advances / productivity growth, an ageing world population, as well as the integration of EM into global supply chains.*
- *Unconventional monetary policy via asset purchase programs (QE) were implemented post the 2008 GFC with the aim to A) reduce long-term interest rates and, B) create a wealth effect that aids demand and rekindles desired inflation. A) worked, but B) empirically did not. Inflation has instead shown up in asset prices.*

Businessweek Cover, 22APR2019

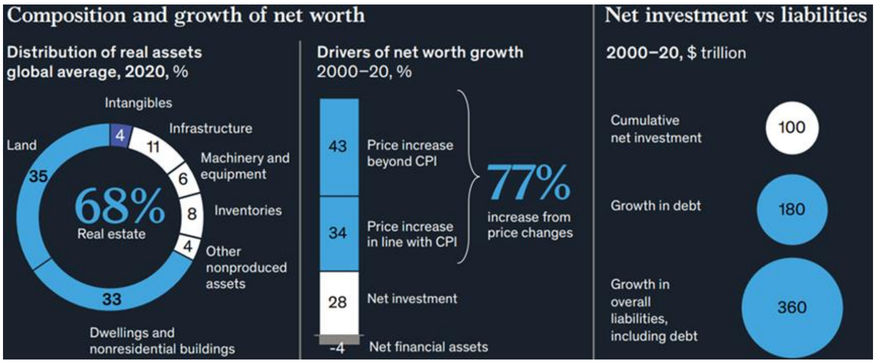
- *As a result, central banks have crowded out the private sector from safe government bonds, forcing it to increase investment risk to maintain yield levels, while implicitly preventing an overleveraged public sector from falling into bankruptcy.*
- *Meanwhile, the private sector has taken advantage of cheaper funding cost to increase leverage, whether in consumer credit or to fund a growing wave of share buybacks, which were a major driving force behind soaring stock markets.*

This is where we found ourselves around 2020, namely near the end of a major asset bubble. To provide more weighty evidence about this, allow me to quote here (expansively) from "The rise and rise of the global balance sheet", published by McKinsey Global Institute in November 2021. The study analysed ten major economies (Australia, Canada, China, France, Germany, Japan, Mexico, Sweden, the United Kingdom, and USA) as proxies for global developments, and here are its key findings:

- *"The market value of the global balance sheet tripled in the first two decades of this century."*, i.e., the total value of the global balance sheet rose from 4 to 6.1 times of GDP.



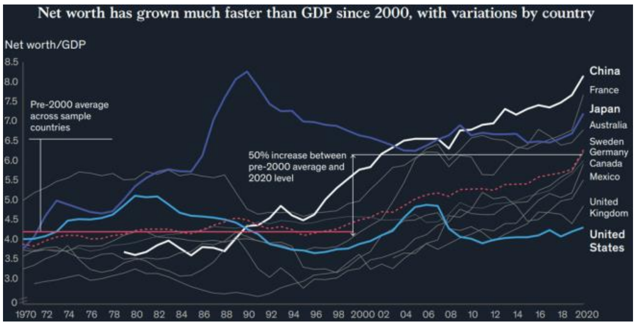
- *"The world has never been wealthier, with large variations across countries, sectors, and households"*, with 10% of households owning two thirds of wealth.



- *"Two-thirds of global net worth is stored in real estate* (of which two thirds again is residential real estate) *and only about 20 percent in other fixed assets, raising questions about whether societies store their wealth productively.*

(Personally, I think that nothing describes the consequences of the lowest interest rates in 4000 years history better than this statement.) … *Assets that drive much of economic growth — infrastructure, industrial structures, machinery and equipment, intangibles — as well as inventories and mineral reserves make up the rest"*. And it is notable that except for China and Japan *"non-real estate assets made up a lower share of total real assets than in 2000"*. This underscores China and Japan's relatively larger investment in productive assets.

- *"Asset values are now nearly 50 percent higher than the long-run average relative to income. Net worth and GDP historically moved in sync at the global level, … However, in the countries in our sample, net worth in 2020 was nearly 50 percent higher relative to income than the long-run average between 1970 and 1999. Asset price increases above inflation propelled by low interest rates drove this divergence, while saving and investment accounted for only 28 percent of net worth growth."*



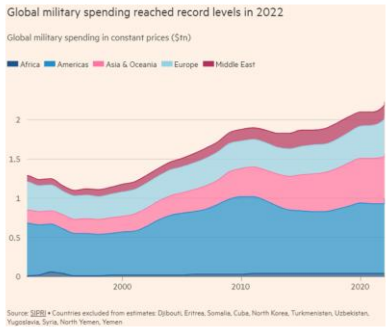
All Charts above:
The rise and rise of the global balance sheet, McKinsey Global Institute, November 2021

- *"For every $1 in net new investment, the global economy created almost $2 in new debt. … While the cost of debt declined sharply relative to GDP, thanks to lower interest rates, high LTV ratios raise questions about financial exposure and how the financial sector allocates capital to investment."*

So, this is how McKinsey (in italic above), who can hardly be regarded as particularly critical to the political and economic establishment, described the situation in early 2021 (non-italic inserts were mine). For what has happened since, and in my view has significant bearings on financial market performance, let's turn now to the final two points from **IASF's** presentation:

- *"Failure of monetary policy to achieve its stated goals has recently led to the growing use of fiscal policy, thus implementing policies like MMT, which advocates increased fiscal spending underwritten by central banks monetary expansion."*
- *"This has been effectively implemented in 2020/21, when the fight against Covid seemed to justify even the most drastic measures. In turn, this has led to an increasingly inflationary environment, which is tacitly accepted, as it reduces the real debt burden in society and helps avoiding large scale bankruptcies and write offs."*

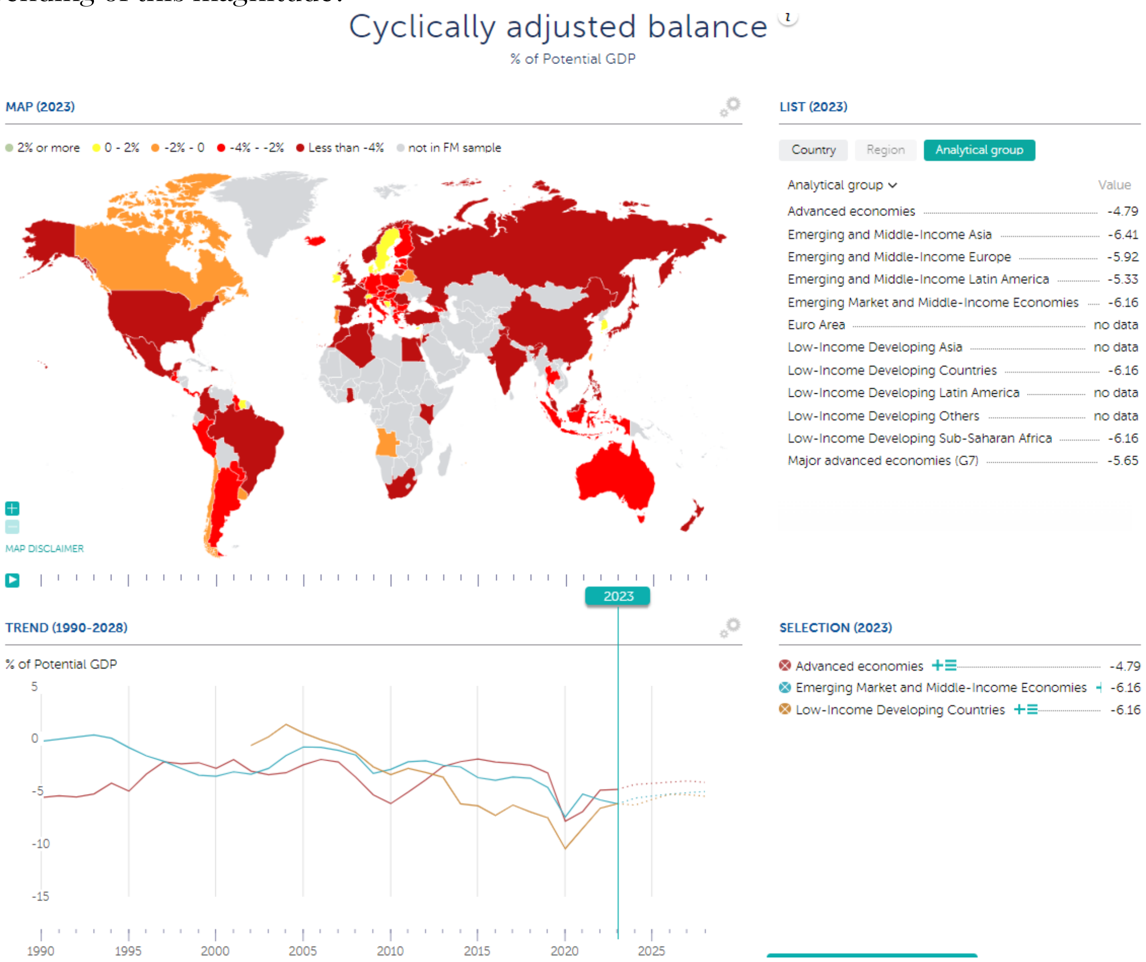
Here, we finally arrive in the present, and of course the last point is our own interpretation of the current state of affairs.



FT, 13JUN2023

Fiscal policy has taken the lead in managing the economy from monetary policy, as became evident during the Covid-19 crisis, and since then with numerous funding programs supposed to help achieve the energy transition and other desired societal outcomes. Recently, military spending has accelerated again as well, rising 4% last year to a record $2.24tn and heading up further.

What this has led to is shown in the below map, which displays the 2023 cyclically adjusted fiscal balances for the world, as well as their historic development. A quick glance confirms that a significant part of the world is in the red, as governments systematically "stimulate" demand by running fiscal deficits. – Does anyone ever wonder what economic growth looked like, if it was not propped up by fiscal spending of this magnitude?

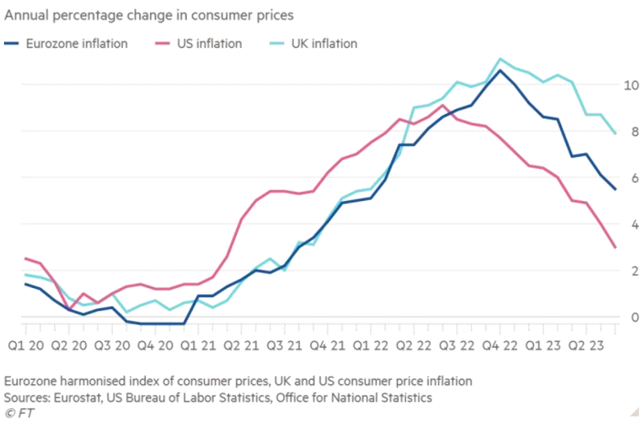


Cyclically Adjusted Fiscal Balance, IMF Data Map, 24JUL2023

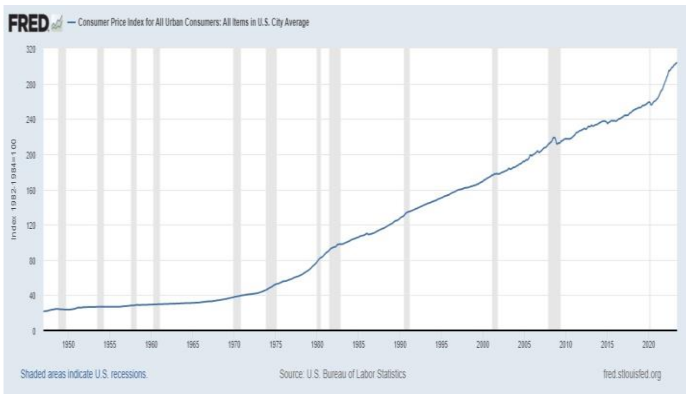
A look at the lower part of the chart above shows how these structural deficits have developed over decades and widened in the process and across all type of economies. We believe this has important consequences for future policy conduct, and hence for investment strategy.

THE MACRO SURPRISE THAT WAS 1H 2023

Having laid this out so far, it appears that the effect of demand stimulus from fiscal deficit spending has been lingering and not exactly aided the cooling of inflationary pressures, which after all are the result of too much money chasing both real and financial assets. This puts central banks in a particular pickle, as their main mandate is to prevent inflation and ensure a stable currency (and financial system). Of course, today's (or the past few decades') interpretation of the inflation mandate has been to allow a gradual decline in purchasing power of the currency, since the target has been set at 2% annual depreciation. As the graph below on the left shows that target has recently been missed by a wide margin, although inflation rates have been declining over the past year, and many observers feel that we are on course to return to the central bank target of 2%.



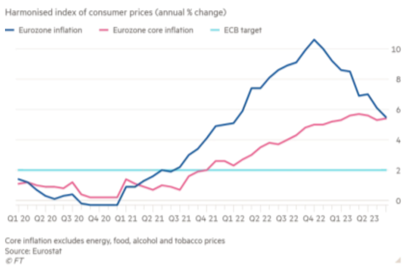
FT, 27JUL2023



St. Louis Fed, Economic Data, 27JUL2023

The US has gone the furthest on this path, with June CPI coming in at 3.1% annually, which has made market participants giddy that all is well again, and the inflation genie has been put back into its bottle.

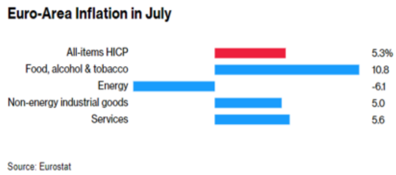
What is rarely considered though, is how much damage this recent wave of inflation has caused, as the US CPI Index has risen from 257 to 304 over the past three years (see graph above on the right for the long-term trend), representing an 18.2% decline in officially registered purchasing power. And the situation is hardly much different here in Europe. (Allow me to skirt the discussion about how reliable official statistics are in tracking the actual decline.)



FT, 30JUN2023

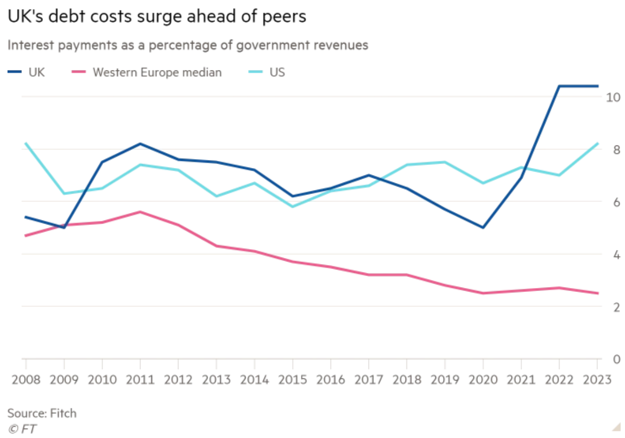
What market participants seem even less worried about is that core inflation (CPI excluding more volatile food and energy) is still elevated (in the Eurozone just under 6%). Amid the sharp fall in energy prices (e.g., Brent crude oil approx. -20%, European natural gas -80%) over the past year that is hardly surprising. Worse still, energy prices have recently shown signs of bottoming, and our base case is that we have seen the lows for this cycle.

The chart on the right, which just popped up in my inbox, displays Euro-area inflation for the month of July, which on a headline basis declined again to 5.3%. Considering recent energy price increases, I expect that Energy will soon turn from a drag to a boost for inflation.



Bloomberg, 31JUL2023

Stubbornly high core inflation has caused central banks to be more hawkish than anticipated with nominal interest rates forecasted to stay higher for longer. As far as the fiscal situation is concerned, this is bad news. After all, it means rising carrying cost for public debt levels, as not only new debt is constantly added but old debt increasingly must be refinanced at higher prices. In the UK this has led to debt cost exceeding 10% of government revenues already.



FT, 25JUL2023

The relative drain on state revenues is also rising in the US. For Europe the situation is not showing the same trend yet, presumably because Eurozone governments were smart enough to lengthen their debt maturity profile during nearly a decade of zero and negative interest rates. But overall debt dynamics are similar to those in the US and UK, so this trend is likely to turn as well – latest during the next recession. (I know, I feel already like Cassandra, but we're getting closer, imhv.) And that will bring about lower overall revenues, higher contra-cyclical and debt financed spending and higher debt servicing cost, a rather unholy trinity, which has caused many an emerging market fiscal collapse.

Of course, the latter usually get into trouble because they borrow in other than their own currencies, e.g., USD, which becomes a problem when your own currency depreciates versus the one you borrowed in.

Weekly comic, 30.4.2020, investing.com

This does not happen in advanced economies who exclusively borrow money in their own currencies, simply because these governments also own what is commonly referred to as "printing press", i.e., they can create the money needed to satisfy their debt service out of thin air. And that is what differentiates such governments from any kind of private household or company.

That this is true is evidenced by Mario Draghi's *"Whatever it takes"* statement, which prevented the PIIGS collapse in 2011/12 by bringing their interest rates back in line with wider EU rates through subsidized loan programs and bond purchases, all funded through the ECB's ability of creating EUR. And given yesterday's downgrade of US government debt from AAA to AA+ by Fitch, the official critique by Janet Yellen, Lawrence Summer & Co, that the US will never (technically) default on its debt is valid for the very same reason.

And yet I believe that the downgrade is entirely merited. After all, even in economies borrowing exclusively in their own currency, the real limitation to uncontrolled deficit spending is inflation and related to that the scarcity of resources. In other words, the US may always have sufficient USD to satisfy its creditors, but it is the purchasing power of these USD that at some point will be of concern to those creditors. But that point is obviously still in the future.

The present, meanwhile, has brought about stronger than anticipated economic growth this year, including by your humble scribe. Should the rise in interest rates not have dampened demand and thus overall growth? – I reckon the explanation is easiest for the public sector, where as outlined above demand has not been deterred from higher funding cost or deficits in a long time. But what about the private sector? – Why has that not shown much of an impact from higher borrowing cost yet?

Here it is important to recall that monetary policy acts with a time lag, and that lag can differ from cycle to cycle. After all, debt is governed by contractual arrangements, which will mostly determine that lag, and which depend on the expectations that borrowers have on the medium-term interest rate outlook. When interest rates reached rock bottom during the Covid-19 pandemic, many borrowers opted to protect themselves from the prospect of rising interest rates, e.g., via the extension of loan tenors or interest rate hedges. According to Grant's Interest Rate Observer this saw for example rolling 12-month issuance of US junk bonds exceeding USD 500bn in early 2021, three times the level seen only two years earlier.

"As a result, only 11% of corporate bond coupons have adjusted upward since the Fed began raising rates in March 2022. … At the moment, U.S. non-financial corporate net interest costs as a percentage of post-tax profits sit at their lowest level in sixty years, down about 25% from mid-2022 (thanks to Albert Edwards and Grant's for this data)."

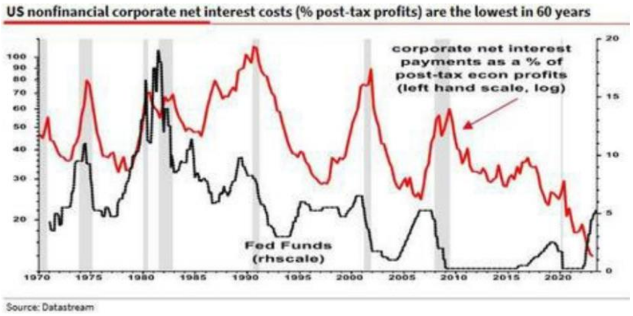


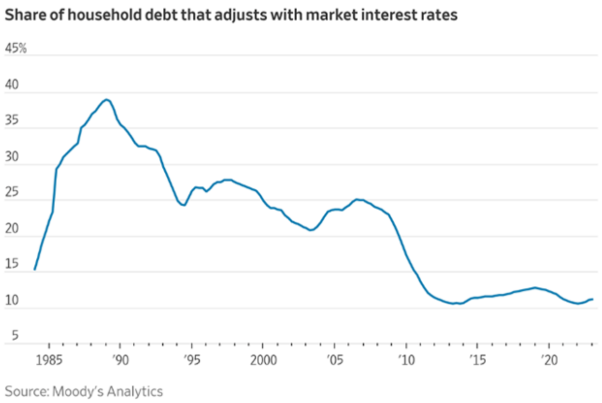
Chart and Quote: The Credit Strategist, August 2023

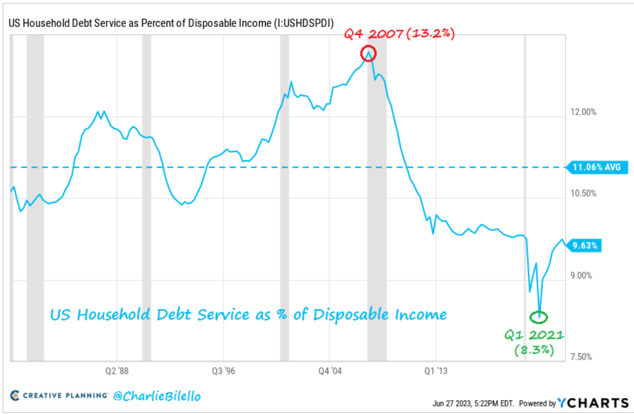
The chart above shows that the time lag between rising Fed Funds Rates and net interest cost as percent of post-tax profits has been between 1 to 3 years. I expect that it overstates the issue somewhat as interest cost are displayed as percentage of profits, and central banks raise rates usually into the late economic boom when corporate profits are also still rising. Hence, when the red line turns it does so usually as the result of rising borrowing cost **and** lower profits.

Another feature delaying the negative impact of rising rates, which is particularly pronounced in this cycle, is the mismatch in the maturity profile of assets and liabilities. *"Mr. Edwards points out that many corporations are benefiting from higher earnings on their own cash deposits with non-financial corporate deposits reaching $2.43 trillion as of March 31, 2023, up 48% from the end of 2019. He reports that "[c]ompanies have effectively played the yield curve in reverse and become net beneficiaries of higher rates, adding 5% to profits over the last year instead of deducting 10%" or more as in previous tightening cycles.*

In other words, rather than paying higher interest on their debt, corporations cushioned that blow by refinancing much of their debt at low fixed rates during the pandemic while simultaneously earning higher yields on their cash balances. This is boosting rather than reducing earnings. When this reverses as low-cost debt is refinanced at higher rates, corporate earnings will take a hit. But this two-sided dynamic is why the tightening cycle isn't working as many expected and one reason why markets are surprisingly robust more than a year into a historic Fed tightening cycle." (The Credit Strategist, August 2023)

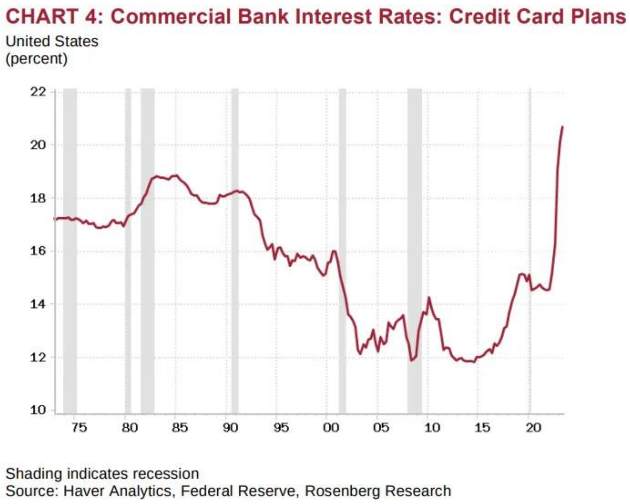
A similarly prudent behaviour as far as balance sheet management is concerned can also be attributed to the household sector.





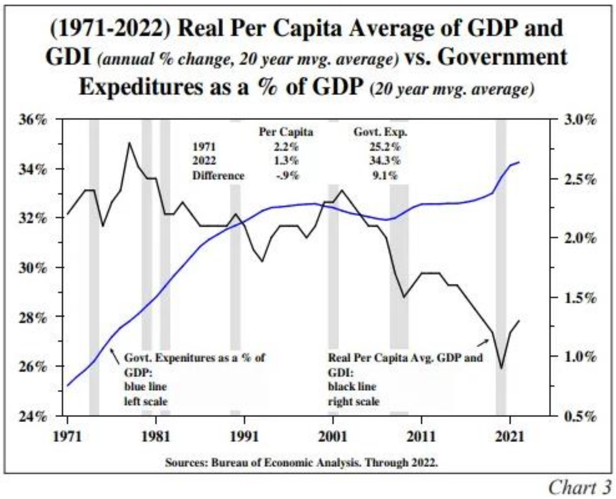
[The Week in Charts](), by Charlie Bilello, 31JUL2023

But this obviously depends on the prevailing household debt maturity profile, and as to what eventually awaits all borrowers, a quick look at the accompanying chart of interest rates on credit card balances in the US may prove useful: *"We are constantly reminded about the healthy condition of U.S. consumers, and yet they owe $1 trillion on their plastic. That combined with 20%+ rates means this is costing American households over $200 billion/year. Clearly, there is a considerable number of folks out there whose finances are painfully stretched."*



Quote and Chart: [Making Hay Monday](), 31JUL2023

So, the impact of rising rates has been cushioned to varying degrees (and that is true for different economies as well) by the prevalence of fixed rate arrangements or interest rate hedges. Meanwhile on the asset side, cash had until early 2022, when the rate hiking cycle started, been held mostly on call / demand deposit amid zero (or negative) interest rates and could thus fully participate in and enjoy the benefits of the past 15 months of interest rate hikes. This has had a significant impact augmenting both household budgets and corporate profits, but as interest on liabilities rises over time, this will turn into a headwind for the economy.



Hoisington Quarterly Review and Outlook 2Q2023

Now, with debt the main topic of discussion here, allow me to conclude this chapter by emphasizing that debt is actually a growth retardant. Few have done as much work on the subject as Dr Lacy Hunt from Hoisington Investment Management, who in the chart on the left plots **Government Expenditures As % Of GDP** vs **Real Per Capita Average Of GDP And GDI**. The resulting countertrends should hardly come as a surprise, as the private sector is empirically more efficient and productive than public sector bureaucracy.

(In real numbers that means that while US government expenditures as percentage of GDP have risen from USD 5.6tr in 1971 (25% of GDP) to 32tr (34% of GDP) today, per capita real growth has fallen from roughly 2.2% to 1.3%.)

So, while growth has been surprising on the upside during 1H 2023 as outlined above, the time lag of tighter monetary policy has yet to make its impact noticeable. On top of that fiscal spending also comes with a multiplier effect, which unfortunately works both ways. During times of rising spending – and we have gone through one of the most dynamic increased deficit spending periods outside of war times in advanced economies in recent years – this provides an additional boost to the economy, but when that dynamic shifts towards "de-stimulus" that also comes with a negative multiplier effect. Coupled with rising debt cost and falling tax revenues, I have a hard time to imagine that the enduring Goldilocks market sentiment of an economic porridge that always has just the right temperature can last much longer. And obviously, this has important implications for our management of the **IASF** portfolio.

So, what does this all mean? – Here I would like to quote The Credit Strategist, Michael Lewis, once again: *"Central banks across the world engaged in what almost appeared to be a synchronized series of rate hikes today to continue the fight against inflation that they will never win until the world enters a debt-deflationary spiral that destroys much of the debt created since the Great Financial Crisis. That destruction can take one of three forms: (1) default, (2) inflation, or (3) currency debauchment."*

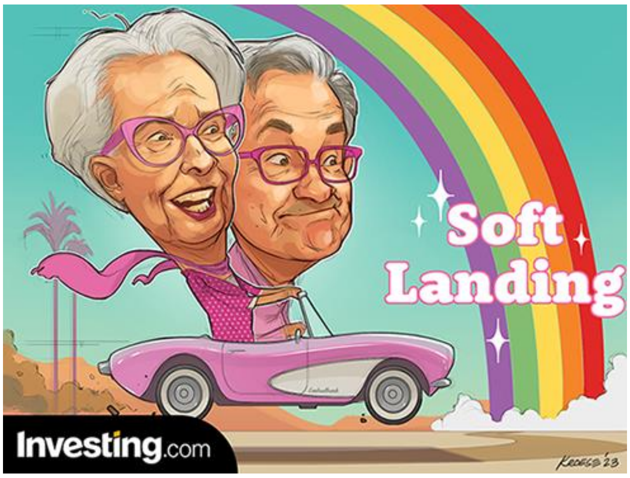
Well put, Michael, but how can (3) work if everyone pursues similar policies? – It can only work against hard assets / real stuff! – Back to you, Michael:

"But one way or another, much of the debt on the world's books will never be repaid in constant dollars. The main job of investors is to figure out how to ensure that their debt is repaid in constant dollars with a return above the real-world inflation rate above that. To be blunt, that is an extremely high bar that very few will be able to meet." (The Credit Strategist, 22JUN2023)

And that, my dear reader, is exactly the bar that every professional investment manager should be judged again, and the reason why we have put it for IASF this way: *"Our objective is to achieve real, i.e. inflation-adjusted, growth in the value of invested assets over the market cycle."*

By the way, we have found that many first-time observers of the fund and its allocation are mistaking it for a "commodity fund", which it is emphatically not. Instead, the concentrated allocation to real assets right now is a conscious choice that reflects our view of how the world (real and financial) is developing.

After all, we have long ago misplaced our rose-tinted glasses – though I have a hunch who might have found them… 😊



Weekly comic, 20.7.2023, investing.com

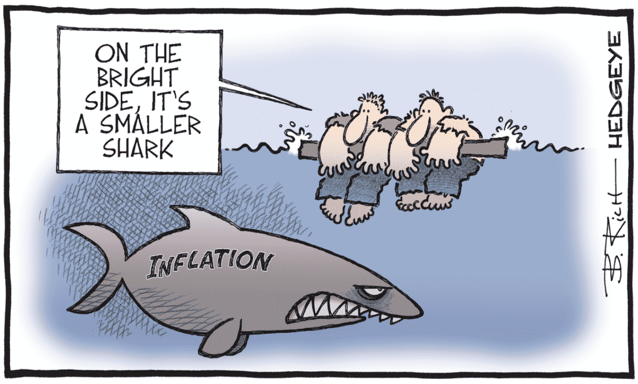
REVIEW OF (A CHALLENGING) 1H 2023

Before I spend more time on the current **IASF** positioning, I thought it might be useful to provide readers with a brief review of the first half of 2023. This review will be part of the Fund Manager / Activity Report in **IASF's** upcoming 2023 semi-annual report, though unfortunately without the embellishing cartoons, and is expected to be published by next month on our fund administrator's (IFM AG) website, as well as under the Downloads section of **IASF's** homepage. But before I do so, PLEASE NOTE:

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.

Now, on with the show: *"As expected, the first half of 2023 can be described as turbulent.*

Against the backdrop of Russia's ongoing static warfare in Ukraine, a weaker-than-expected economic recovery in China and increasing US-China tensions, as well as sharply higher interest rates that led to a series of bank failures in the US, global economic growth proved more resilient than expected. At the same time, however, (core) inflation rates have remained stubbornly elevated, even though there has recently been an easing here, mainly due to base effects.



Hedgeye, Cartoon of the Day, 10MAY2023

What surprised us was the development in financial markets. While central banks continued to raise short-term interest rates significantly, long-term rates stabilised, which led to a renewed strengthening of yield curve inversion, which is one of the most reliable recession indicators worldwide. However, such prospects are not confirmed by still low and stable credit spreads.

Hedgeye, Cartoon of the Day, 18MAY2023

At the same time, global equity markets experienced a bull market of historic proportions despite overall stagnant to declining corporate earnings. As a result, the FTSE Global 100 Index rose by about a quarter in the first half of the year, facilitating the recuperation of a large part of index losses suffered last year.

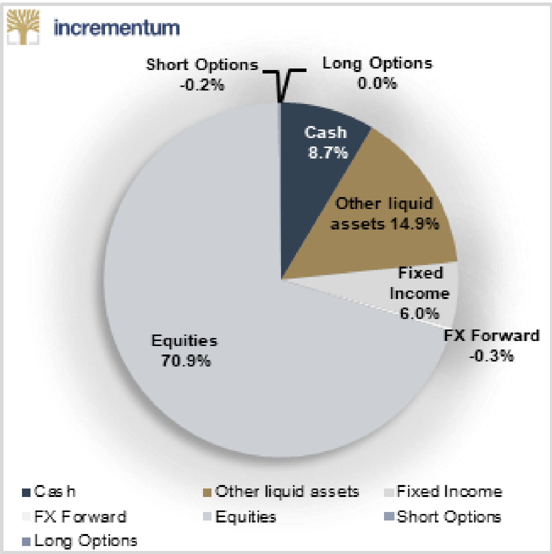
In our assessment, an echo bubble has formed here, characterised above all by the fact that it is mainly supported by only a few large (mega-tech) stocks. Microsoft, for example, reached a market capitalisation of USD 2.5 trillion after a 41% rise in the first half of the year, which corresponds to about 12 times annual revenues as well as book value, values the stock at about 35 times annual earnings, and rewards "investors" with a dividend yield of 0.8%.

A similar picture emerges for the rest of the "Magnificent 7", i.e., Alphabet, Amazon, Apple, Meta, Nvidia and Tesla, which also benefit most from the latest speculative tools of the asset management industry, such as "0DTE" (zero day to expiry) options. In the process, investors have once again been ignoring fundamentals and discounting future gains to infinity, which has driven valuations for major technology stocks to unsustainable levels. – Welcome to the biggest casino in the world!

Weekly comic, 20.6.2023, investing.com

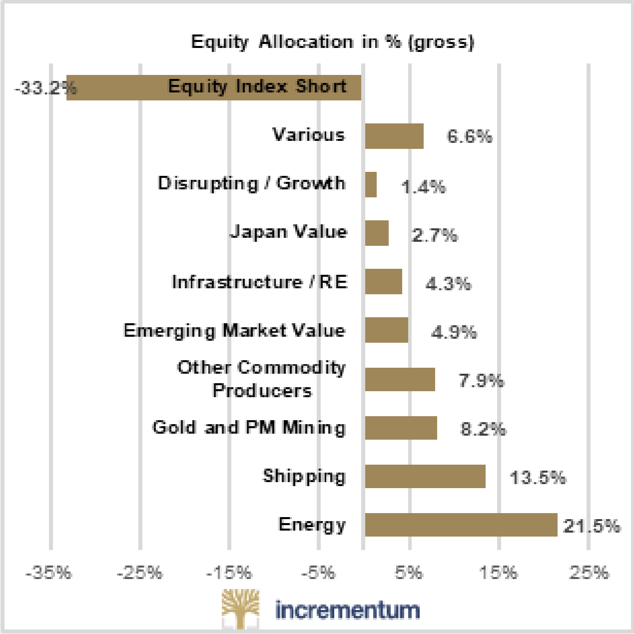
Overall, shares are trading and valued as if interest rates were still at zero and central banks still on a monetary expansion course. Tangible assets, cash flows and dividends only play a subordinate role, as does the solidity of balance sheets. Instead, what mattered most in the first half of the year was the prevailing price momentum and the dream of the infinite profit potential of Artificial Intelligence, rather than the reality of sharply decelerating growth, growing margin pressure and the constraints of the real world.

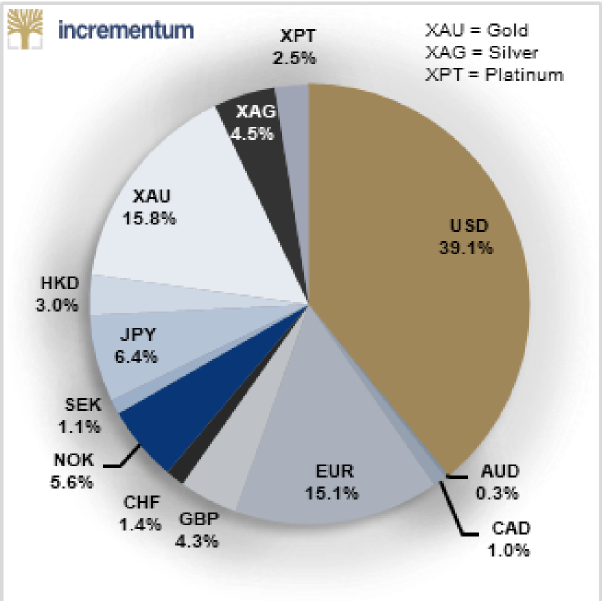
*In an investment world detached from fundamental valuations and driven by passive portfolio flows, **IASF** has had a difficult six months. After generating outstanding gains last year in one of the most challenging stock market environments in recent history, our fundamental value-driven investment approach had no chance of keeping up with the highflyers in the tech sector this year.*



*Overall, **IASF's** investment allocation changed minimally compared to the end of 2022. The equity allocation of the portfolio increased by approx. 4% to 71%, while the bond allocation remained largely unchanged at 6%. At the theme level, our allocation to the **ENERGY** theme increased to 21% (+5%), which is thus at maximum level. This theme delivered a positive contribution to results despite the fall in oil, gas and coal prices (uranium was the exception), driven mainly by Cameco (+38%) as well as energy service companies.*

SHIPPING *remained unchanged at 13% and continued to make positive contributions to results as almost all positions – led by Frontline (+31%) – showed significant gains. Our* ***GOLD AND PM MINING*** *allocation was 8% (-2%) and suffered particularly from weak silver prices (Pan American Silver -13%).* ***OTHER COMMODITY PRODUCERS*** *(+1% to 8%) were clearly negative, led by our allocation to fertiliser producers (OCI -23% (after accounting for the 10.5% dividend), Mosaic -20%). Major changes also occurred in* ***EMERGING MARKET VALUE*** *(+3 to 5%), while* ***INFRASTRUCTURE / REAL ESTATE, JAPAN VALUE, DISRUPTING / GROWTH*** *and* ***MISCELLANEOUS*** *allocations remained largely unchanged. In the latter, our holding in Dole Plc (+40%) began to unfold its potential.*





A significant performance drag is attributable to ***IASF's*** *rebuilding of equity index shorts for hedging purposes. In retrospect, we clearly underestimated the extent of the newly forming echo bubble. Our equity index shorts, and other hedging measures ultimately cost us about 6% in performance over the first half of the year, costs that were only about half offset by dividend income and option premiums collected. Last but not least, our overall currency allocation also had a negative impact, as NOK and JPY in particular, but also the USD as well as XAG (silver) and XPT (platinum) showed weakness against the EUR in the first half of the year.*

*All this meant that our investors had to be content with a zero return in the first half of the year. However, this did not change the fact that **IASF** was named Europe's best fund over 3 years in the "Mixed Asset EUR Flex - Global" category at the Refinitiv Lipper Fund Awards 2023. And our overall decent longer-term work has also meant that the fund was able to record significant inflows of assets, even if this trend has recently come to a standstill.*

In closing, we can state that the first half of the year surprised us in many ways and that we are certainly not satisfied with the reported result. But we can only emphasise again and again that investing is a long-term process which is characterised by inevitable ups and downs. Of course, we are not always equally good at anticipating short-term market fluctuations and positioning ourselves accordingly. But our longer-term track record remains strong, and we would like to take this opportunity to thank our investors for their patience and trust! We will continue to pursue our goal to deliver real NAV growth to our investors over the long term, thereby increasing the purchasing power of funds invested with us."

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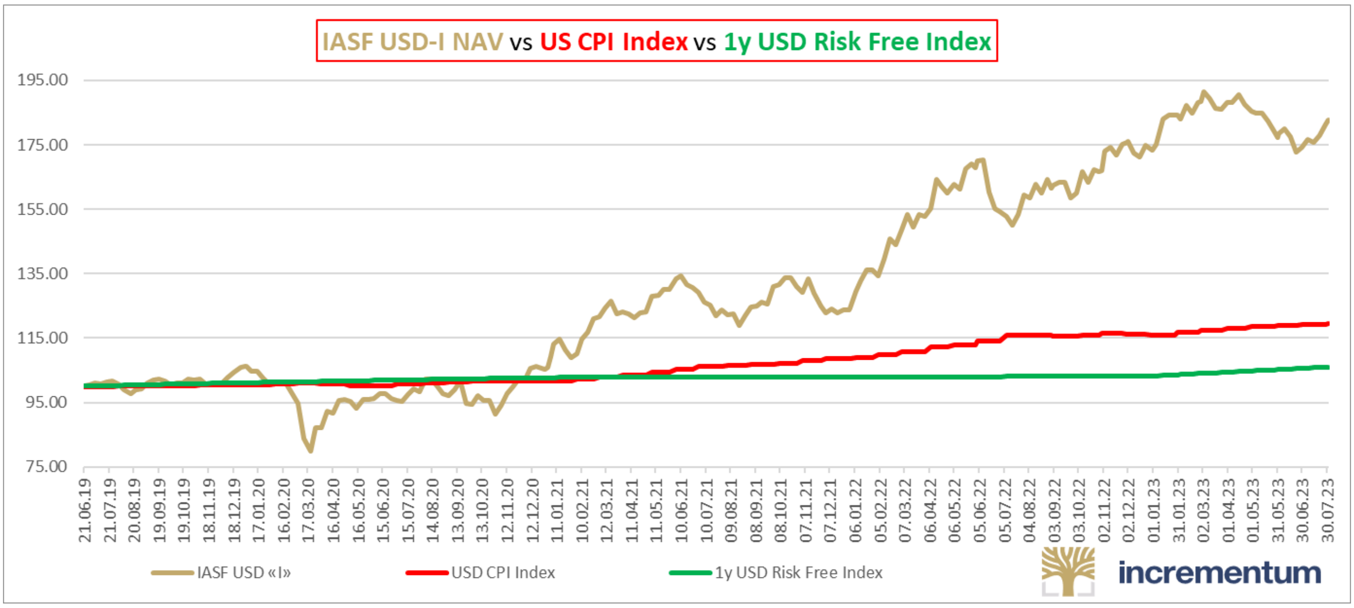
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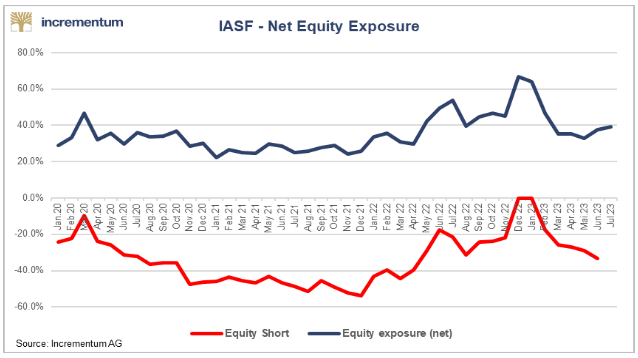
HITS AND MISSES

As of the time of writing this, more than a month has already passed. July has delivered a decent rebound in the fund's NAV, thus recovering about half of the drawdown experienced between April and June. Amid the expanding length of this letter, allow me to close it with some examples of our **HITS** and **MISSES** that should help to shed more light on this year's performance and our thinking.

I would like to start with our portfolio risk mitigation tools, on the nature of which we wrote on page 4 already, and which as far as their 1H performance contribution is concerned belong in the "**MISSES**" section.

The main loss attribution stems from our equity index shorts. The chart on the right displays the past development of our shorts in red, as well as the resulting net equity exposure in blue. It shows the varying degree of our short hedges, which went (intra-month) to zero both in Mar 2020 and Dec/Jan 2023, and reached a peak level at around 55% in late 2021.



Beginning in February this year, we have gradually rebuilt our short book into a rising equity market, as we did not share the optimism of other market participants concerning the outlook for growth, inflation, interest rates and corporate profits. In hindsight, growth proved more resilient, but so did inflation and short-term interest rates. Better growth has helped to boost the longer-term outlook for corporate profits, even if short-term they have been consolidating. Together with long-term interest rates significantly below short ones, this - in anticipation of renewed central bank easing and an ongoing economic expansion - has caused investors to bet on a goldilocks scenario, a stance we still find hard to justify.

The result has been bullish equity markets, which in turn produced painful losses from our short equity index positions. In their composition, these should always be regarded as insurance policy justified by excessive equity market valuations, but they also reflect our conviction that we have entered a decade of growth/momentum-to-value/hard asset rotation. Last year that positioning worked perfectly and helped to make it such a remarkable year in terms of performance for **IASF**. But each few steps up on the rotation ladder will at some point be followed by a step down, as markets are cyclically and sentiment short-term tends to overshoot. And alas so far in 2023, our equity "hedges" have been a drag to performance.

How much of a drag, you may ask?

As of 11AUG2023, we had the following hedges in place (=> loss contribution on EUR 150m average AuM):

- S&P 500 (8.3% of AuM) => -0.67%
- Nasdaq 100 (13.9% of AuM) => -2.39%
- Russell 2000 (3.9% of AuM) => +0.05%
- DAX (5.0% of AuM) => -0.01%

Obviously, the main performance drag came from US tech and large cap equity shorts (-3.06%), while our Russell 2000 has even added a tiny bit of value year-to-date.

On top of that, we applied additional risk mitigation tools, and the most impactful one has been our S&P 500 Volatility Index (VIX) Futures long positions. These contributed positively to 1Q performance, an impact that culminated during the VIX spike in the wake of the US banking crisis in March. But while we anticipated this event to cause more trouble and volatility, the opposite happened, and the VIX has been on a downward spiral ever since. – Why was that?

Weekly S&P500 ChartStorm, 18JUN2023

It seems that a cocktail of bank bailouts and Fed liquidity injections, followed by lower realized volatility and overall bullish sentiment was enough to disperse any nervousness in markets in the aftermath of the US banking crisis and apparent stresses in the financial system. Fundamentally, we were not convinced that this is justified, which is why we held a slimmed down position beyond mid-year, not the least due to seasonal patterns for the VIX.

Here it is important to note that we rarely work with Stop Losses, predominantly because our experience has been marked by being whipsawed in trading action and missing the forest for the trees as far as the big picture is concerned in the process. Some may criticize that approach, but as asset manager it is important to understand where your strength and weaknesses lie, so we have no regrets in this regard.

We have maintained the position in full acceptance of the high cost of carry, and ultimately this has cost us another 2.17% year-to-date (also as of 11AUG), thus clearly representing another **MISS**.

A further **MISS** is attributable to our currency allocation, in particular the JPY. At the end of 2022, we had approx. 4% foreign currency exposure to the JPY, which was mainly due to our equity and cash holdings in the currency. As of 11AUG our exposure has been increased to 14% in two steps. In mid Jan we sold EUR 5m against JPY on a forward basis, which by now has cost **IASF** approx. -0.4% performance.

EUR/JPY chart, investing.com

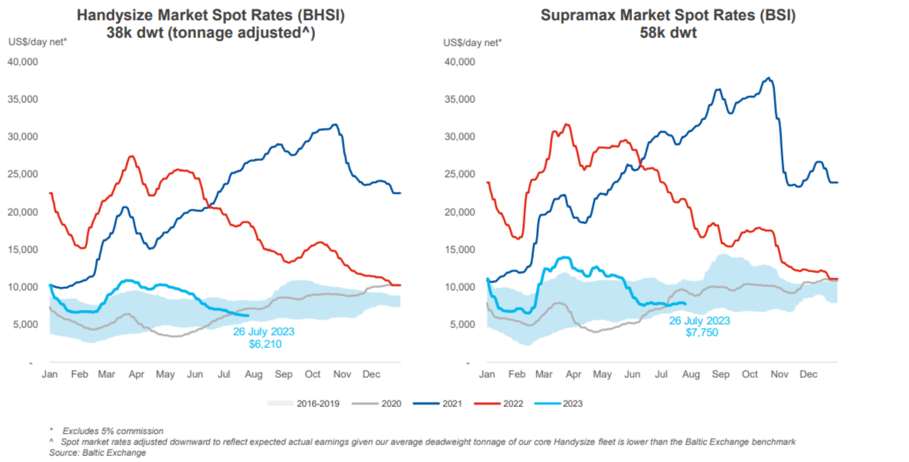
By mid-July we doubled down selling another EUR 5m against JPY, and a few days later we further increased our JPY exposure by selling CHF 8m versus JPY on a forward basis. The latter two contracts so far have contributed approx. -0.2% performance. Together that amounts to 0.6% less than we might have otherwise shown for this year. Adding in about 0.3% losses on our unhedged USD exposure, and we have found another 0.9% missing from our ideal results.

Given the size and importance of USD based financial markets, managing USD/EUR exposure has always been a focus for **IASF**. But the new JPY exposure represents an active bet on a long-neglected economy and severely undervalued currency, which amid Japan's position as net creditor nation has the added advantage of showing a tendency to perform well during risk-off periods.

EUR/USD chart, investing.com

But what about individual picks on portfolio level, you may ask?

Well, the worst performer among our **SHIPPING** picks was Pacific Basin, which has consistently been one of the fund's largest positions, and (as of 11AUG) is showing a 10% decline year-to-date. That is despite of 32.5 HKc (12.3% of year-end 2022 closing price) of dividends collected so far in 2023, which was insufficient to turn this stock into a positive contributor to **IASF's** results. (All our other shipping stocks have yielded positive contributions year-to-date – more on that in the **HITS** section.)



Pacific Basin, 1H2023 Results Presentation

As the graphs on the left show, Pacific Basin's fundamentals have been disappointing lately, as dry bulk rates especially for the smaller vessel categories the company owns and operates, and amid the impact of reduced congestion, have performed rather poorly compared to prior years.

In **ENERGY** our worst performing counter has been Peabody Energy, which as of 11AUG has lost 12.6% year-to-date (incl. 15 USc in newly instated dividends collected, which do not yet make much of a difference). As a leading global coal producer with production in the US and Australia, its share price has been under pressure amid significantly lower realized coal prices and thus earnings and cashflow year-over-year. At a current market capitalization of USD 3bn and a net cash balance sheet (EV 2.36bn), the shares trade at an estimated PE of 4.9, a FCF yield of 23% (all data from Refinitiv/Reuters), and is actively buying back shares, a cocktail that points to a rather favourable risk-return profile.

I could go on like this, but I hope readers will get the gist. - In summary, the table on the right shows **IASF's** year-to-11AUG thematic equity returns (average weighted total return change in local currency). Although it does not represent an exact performance contribution, as not all positions were bought in full at year-end 2022, given the long-term nature of our investments it provides a fair impression of where money was made in equities.

SHIPPING	=> +27.5%
ENERGY	=> +19.0%
OTHER COMMODITY PRODUCERS	=> -2.6%
GOLD AND PM MINING	=> +5.7%
INFRASTRUCTURE / RE	=> +17.8%
JAPAN VALUE	=> +20.6%
EMERGING MARKET VALUE	=> +0.6%
GROWTH / TECH	=> +19.0%
MISCELLANEOUS	=> +7.7%

So, considering the before mentioned **MISSES** which amount to roughly 6.25% performance contribution, and the fact that **IASF's** USD-I shares are up 5.5% year-to-date (as of 10AUG), there are bound to have been some **HITS** as well. Where might they be?

Well, the general overview about year-to-date equity performance in our theme baskets should provide more than a hint. In **SHIPPING**, Frontline is up 72% year-to-11AUG, leading a strong performing tanker sector (worst performer here was DHT Holdings at +16.3%). In **ENERGY**, Cameco, Seadrill, Technip Energies and Technip FMC have all gained more than 50%. In **OTHER COMMODITY PRODUCERS** last year's laggard Lundin Mining is up 35%, same as Equinox Gold as one of last year's greatest disappointments is up 48% in **GOLD AND PM MINING**. The top performer in **INFRASTRUCTURE / RE** is VGP NV (+33%) and in **JAPAN VALUE** it was Renesas Electronics, which we sold at a near 80% 2023 gain back in March already. In **EMERGING MARKET VALUE** First Pacific Co has accrued 36% in value this year, though our predominantly Asia focused portfolio has disappointed overall after a terrific first few months. And among our **MISCELLANEOUS** positions, Dole Plc has been the standout performer this year with a year-to-11Aug return of 41%.

Needless to say, none of this constitutes a recommendation, nor does it show the true value each of these positions added to **IASF's** portfolio, as we manage individual positions over the course of their life, perhaps starting with a small position, that at a later stage when it is living up to its true potential is often only gradually unwound. We also use the sale of covered options to generate additional returns wherever a sufficiently liquid options market is available, which has generated a 1.45% performance contribution year-to-date.

Other **HITS** can be found in our bond portfolio, which though small has also shown some decent return contributions. A small position in short-term EUR denominated corporate bonds delivered returns of 1-2% above deposit rates but were only always meant as pure cash equivalent and have been mostly sold off already during 2Q to satisfy net portfolio outflows.

But we also bought paper with a clear investment purpose. Among those was the USD 7% Golar 2025 bond, which we bought in Sep 2022 for 98% and which was redeemed early in May this year at 100% + 3.75% consent fee for a total return of close to 10%. As another example, we also chose to invest in Transocean bonds, as a lower risk option to gain exposure to the company than buying the shares. The USD 7.5% Transocean 2031 is up 50% since our purchase in September last year, while the USD 8% Transocean 2027 has gained 9% since our later purchase in March, not counting interest accrual.

Last but not least, a quick word on our precious metals' exposure. We are generally bullish for precious metals prices, which is why we keep part of **IASF's** liquidity in the Amundi Physical Gold ETC (8.65% of AuM as of 11AUG), which is up 2.2% ytd. But in 2023 this exposure has overall cost us, as our smaller and more volatile positions in Wisdom Tree's Physical Platinum (2.35% of AuM) and Silver (1.55% of AuM) ETC suffered 17% and 8% declines (in EUR) ytd respectively. Both metals came under pressure amid a deteriorating economic growth outlook, but given the fundamental supply / demand picture, we remain constructive on the longer-term price outlook.

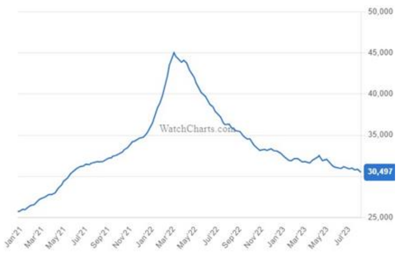
In addition to these ETCs we also have exposure to XAG (paper Silver; 1.55% of AuM), which we established since January through the sale of put options. Our current position was bought at an average price of EUR 21.875 and is thus 5.4% under water. However, we have generated 9% in total premium income on the underlying, making this a net positive contributor so far this year.

In light of the diminishing time to planned publication date, I trust this will suffice as far as the review section for the fund is concerned. Are we happy with this year's results? – Yes, overall, I can say we are. Of course, it feels disappointing to barely reach a positive result, not only relative to overall (equity) markets, but also considering the two prior years of elevated double-digit returns. But this is the nature of investing; sometimes everything seems to work, and then again there are times when hardly anything moves as you expected. In the end, these are all short-term trends and observations, and it is vital to always keep the bigger and longer-term picture in view.

Barron's Magazine Cover, 8JUN2023

When I began writing this report, it almost felt like I was the only one left to have a bearish view on overall equity markets. Then the attached Barron's magazine cover suggested we had reached peak bullishness. And as I have progressed in the report's composition, by mid-August I feel a bit less stupid. The equity rally over the first half of 2023 has been relentless, and with a lot of cash having been burned on bearish views, it almost feels like most bears have been caving in recently. But August and September are well known for their bearish seasonality, and so far there is little to suggest that it will be different this year.

If one was looking for signs of the true state of the Everything Bubble, the chart on the right might help. Unlike in financial markets, it shows no echo bubble for luxury watches. Might the swift and significant increase in short-term interest rates have been a trigger to let the air out of this bubble? – And might this be something that dawns for financial markets going forward as well?



WatchCharts Market Index, 14AUG2023

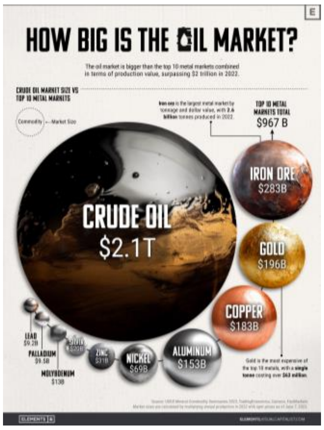
At **IASF**, and as far as interest rates are concerned, we are in the higher for longer camp. We also fear that a recession will be hard to avoid. Personally, I seem to recollect that most of the expected soft landings in the past ended in recession. Michael Green, one of the smartest people around, made a convincing argument on the subject with his Wealthion appearance on June 28 under the title "Thinking We'll Avoid Recession Is Delusional". But regardless of whether the economy enters a recession or can achieve a soft landing, investors would do well to keep in mind that historically stocks bottomed after the last Fed rate cut, not the first skip in the hiking cycle or the first pause, and also not the first cut.

Given arguably elevated stock market valuations, central banks that remain in tightening mode and may not be so quickly deterred from their course by an economic slowdown, as they desperately try to get the inflation genie back into the bottle, we remain cautiously positioned on the long side, and maintain sizeable liquidity (ca. 25%), while maintaining our portfolio hedges and risk mitigation tools in place.

We also continue to find plenty of value in our investment themes, with the largest exposure still in ENERGY. With OPEC's recent supply discipline, global oil markets are on track for a supply deficit of 2m barrels in 3Q2023. That has already led to a 20% rebound in Brent oil since their end of June lows. Longer-term, however, this story remains dominated by underinvestment in reserve replacement, mainly due to regulatory uncertainty.

Bloomberg, 10AUG2023

After all, the size and meaning of energy markets for our economies cannot be underestimated:



Commodity	2022 Annual Production	Market Size
Crude Oil	29.5 billion barrels	$2.1 trillion
Iron Ore	2.6 billion tonnes	$283.4 billion
Gold	3,100 tonnes	$195.9 billion
Copper	22 million tonnes	$183.3 billion
Aluminum	69 million tonnes	$152.6 billion
Nickel	3.3 million tonnes	$68.8 billion
Zinc	13 million tonnes	$30.9 billion
Silver	26,000 tonnes	$19.9 billion
Molybdenum	250,000 tonnes	$12.9 billion
Palladium	210 tonnes	$9.5 billion
Lead	4.5 million tonnes	$9.2 billion

Based on prices as of June 7, 2023.

Elements.visualcapitalist.com, 30JUN2023

@AndreasSteno, Twitter, 29OCT2022

For anyone interested in a comprehensive primer on energy (and the problems we face in the planned transition), I leave "The Unpopular Truth… about Electricity and the Future of Energy" with Dr. Lars Schernikau as a good starting point here.

Our overall positioning in **IASF** is very much framed by the following quote from the book I recommended on the opening page of this report:

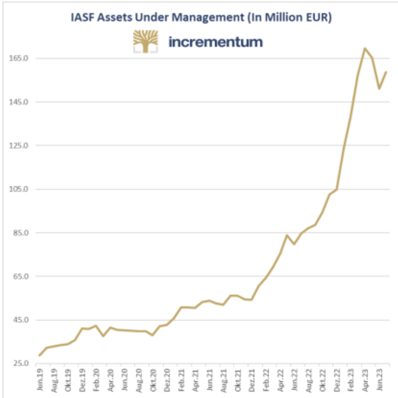
"Modern economies will always be tied to massive material flows, whether those of ammonia-based fertilizers to feed the still-growing global population; plastics, steel, and cement needed for new tools, machines, structures, and infrastructures; or new inputs required to produce solar cells, wind turbines, electric cars, and storage batteries. And until all energies used to extract and process these materials come from renewable conversions, modern civilization will remain fundamentally dependent on the fossil fuels used in the production of these indispensable materials. No AI, no apps, and no electronic messages will change that." (How the World Really Works, by Vaclav Smil, Conclusion of Chapter 3, and all in all a Must Read)

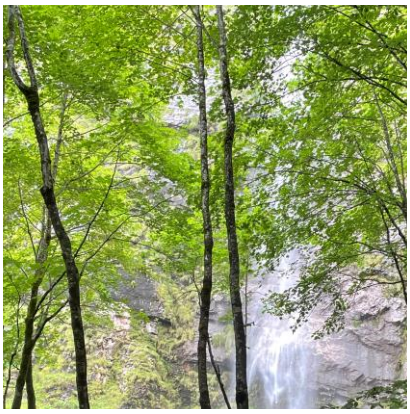
This is where we expect plenty of tailwinds over the coming years, and this is where we find most value at this stage of the cycle, which is why we will continue to focus our investments there – not exclusively, and not forever, but for now. We hope that you will continue to join us on this journey.

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.

As usual I would like to conclude these pages with an updated chart on **IASF's** AuM, which have risen more than 50% this year to EUR 158m. Together with its Lipper Fund Award 2023 as best European Mixed Asset EUR Flex – Global fund over the past 3 years, a 5-Star Morningstar-Rating, or the recent Citywire ranking of both Christian Schärer and myself among Europe's top 250 fund managers, I believe I can say that the little project I started back in 2019 is on a very good track. And I am determined to continue delivering on our promises of real returns for our investors, and thus prove that active portfolio management is worth paying for.





Waterfall at Klöntalersee, HGS pic, 5AUG2023

By now, it has been two months since I started writing this summer edition of SR. Not only has the season turned cooler and wet compared to June, but it is also obvious that the days are getting shorter, and autumn is approaching. With that a historically rather challenging time for investors has begun for which I believe we are appropriately positioned. – Time will tell, of course, and you will read about it here over the coming quarters. But one thing should be clear: I have never owned any rose-tinted glasses, which seem so much in style these days. For better or for worse, this is what you get, as reader as well as **IASF** investor.

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.

Greetings from Schaan, Liechtenstein!

Best regards,
Hans

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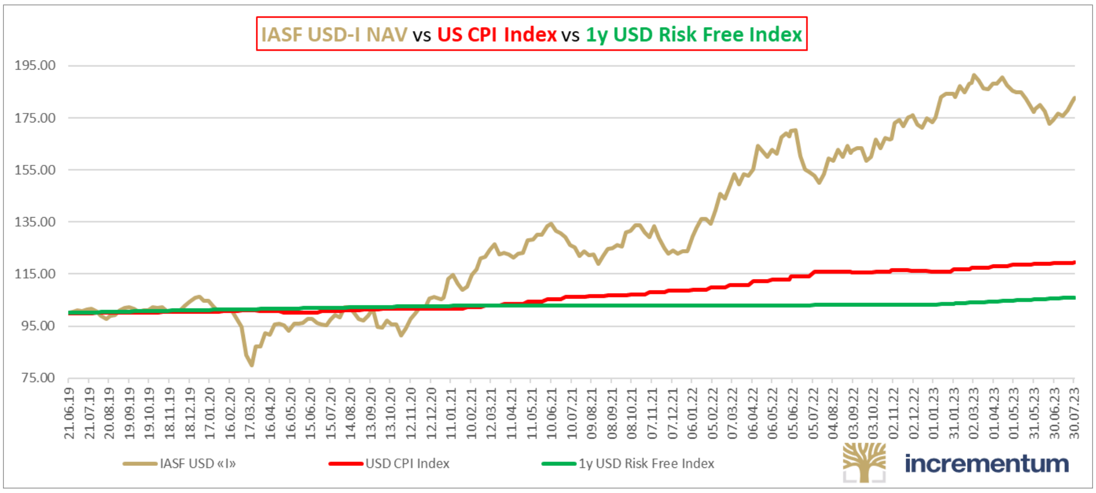
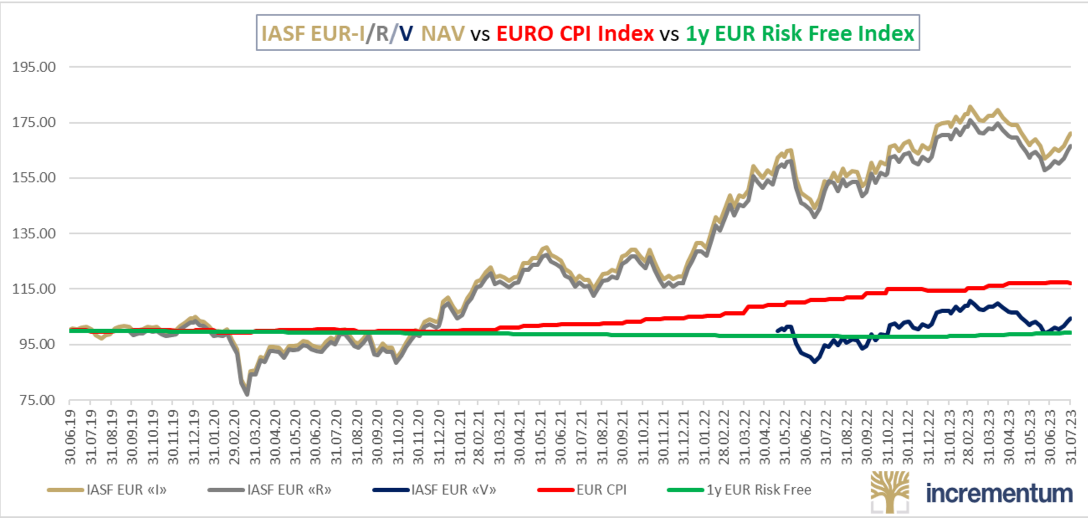
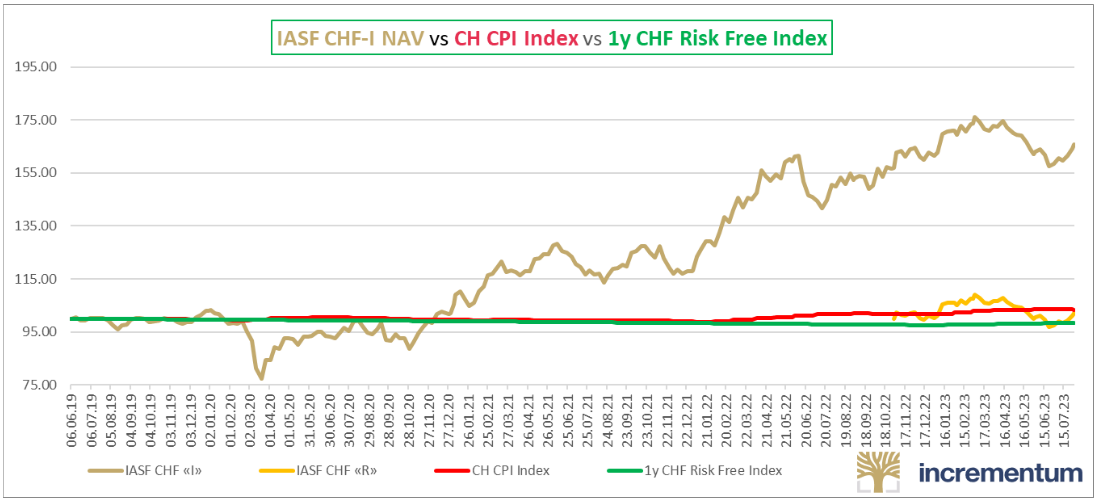
Appendix *







* Graphs display NAV of IASF performance until last valuation date (**31JUL2023**), 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." (Warren Buffett)
2. Prices paid determine future returns, i.e., the higher valuations are, the lower future return expectations must c.p. 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 usually more rewarding 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 perfect investing. Hence, 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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