Incrementum All Seasons Fund

– in pursuit of real returns –

2022 / 03

Seasonal Reflections

Special 1H 2022 Edition

Dear Reader / Investor,

We interrupt our quarterly publishing schedule for a special edition that reviews 1H 2022 market and fund performance for investors.

I am not exaggerating when I say that the past six months were probably the most challenging period for investors since the second half of 2008 at the height of the Global Financial Crisis. Regular readers will not have been too surprised about the persistence of inflationary pressure in the global economy, and even if the world's political leaders AND central bankers have made quite the effort to attribute this to Russia's war in the Ukraine, these inflationary pressures had been building well before Russia's aggression.


*Walter Bloomberg
@Deltaone

*POWELL: WE UNDERSTAND BETTER HOW LITTLE WE UNDERSTAND INFLATION

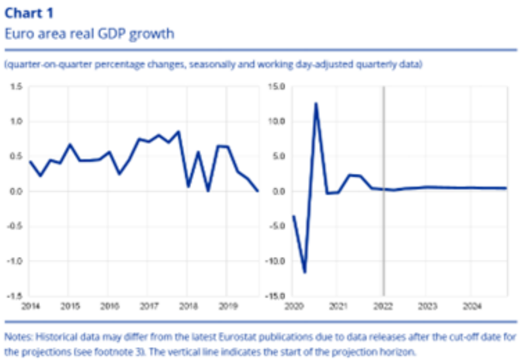
3:55 PM · Jun 29, 2022 · TweetDeck

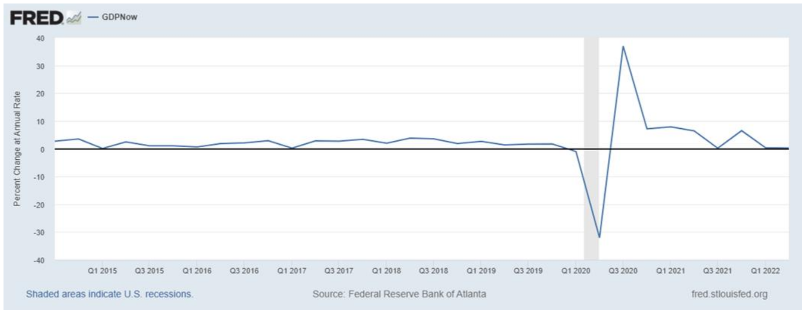
*Walter Bloomberg, @Deltaone, Twitter, 29JUN2022
(Adtl. recording for context, @Raph_Bloch, Twitter, 30JUN2022)

Perhaps, if our central bankers spent more time in the real world, they would not have to resort to such an admission of incompetence. Isn't understanding inflation the Raison d'Être for a central bank? – How else do they think to preserve the purchasing power of our money?

Don’t worry, this is as much as I intend to say on the subject. After all, as shocking as many things are in this day and age, for us as investors they are ultimately merely external factors which we must incorporate in our own thinking. - So, how is the macro backdrop at half-time 2022?

Economically, Stagflation 2.0 is becoming ever more real. Following a broad-based Covid-(fiscal) spending boosted 6.3% advance in 2021, global real economic growth has been slowing sharply this year. As the graph below on the left shows, by the ECB’s own 1Q 2022 estimates annual GDP growth is expected to slow to 2.8%, which I expect will turn out wishful thinking, with the longer-term outlook clinging to the zero line. The US Atlanta Fed GDP Now tracker as of June 27 shows real economic growth of 0.25%.

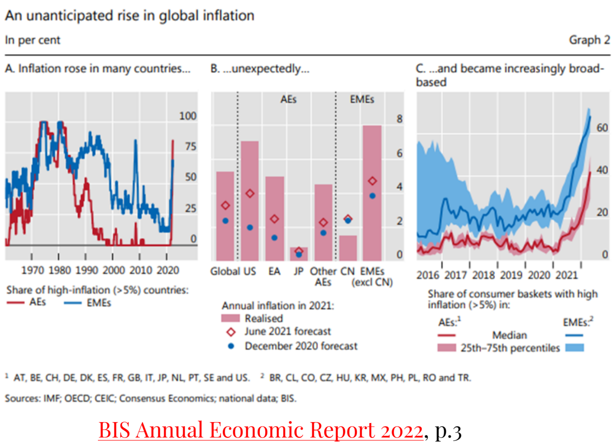


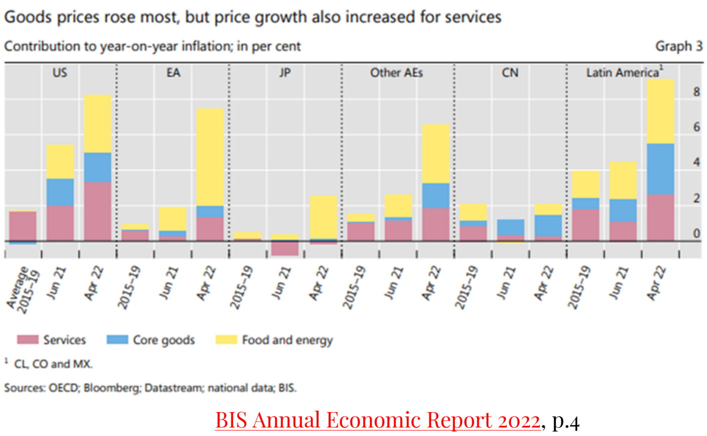


ECB Macroeconomic Projections, GDP Estimate 2022: +2.8% FRED Economic Data, GDP Now, Atlanta Fed Estimate, 27JUN2022: 0.25%

The only hope for global growth seems China, which after having experienced a sharp slowdown amid its desperate attempt to enforce a credible Zero-Covid policy, is expected to provide fiscal and monetary stimulus in 2H 2022. Japan as well as Emerging Markets are suffering from a strong USD and can hardly be expected to help improving the overall outlook.

Meanwhile, the BIS in its Annual Economic Report 2022 reiterates the global central banker narrative, stating “*an unanticipated rise in global inflation*”. Clearly, that does not surprise given that they only now seem to begin to understand how little they understand the subject…

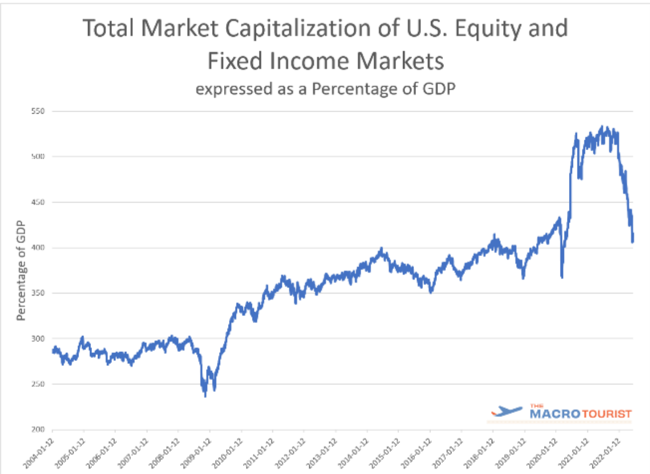




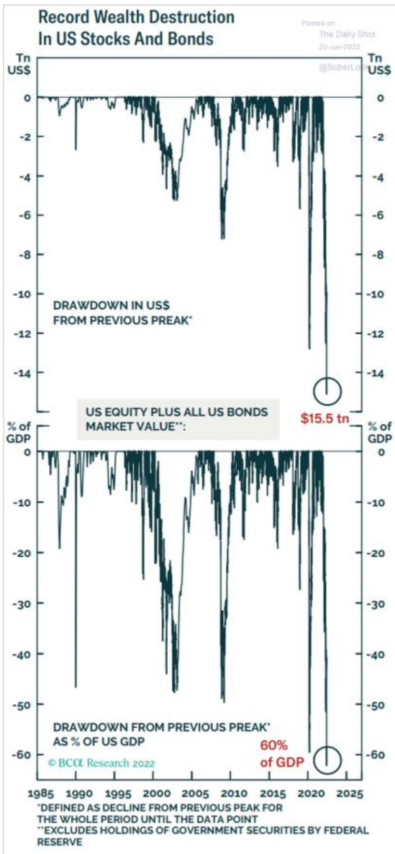
BIS Annual Economic Report 2022, p.3 BIS Annual Economic Report 2022, p.4

The graph on the right above shows how the surge in inflation has been led by food and energy prices, you know, the kind of volatile items that our monetary mandarins prefer to keep out of the scope of their divinations. Meanwhile, our political class does its best to ensure that energy prices and insecurity remain high, while the war in Ukraine has become entrenched. – Interesting times, indeed!

Against this backdrop, which is accompanied by rising short-term interest rates and the end of central bank asset purchases, which are about to turn into sales, financial market action has been rather sobering. The Wall Street Journal took a Sober Look at the results on June 20, which revealed "*Record Wealth Destruction In US Stocks And Bonds*". As the graph on the right shows, the correction amounted to combined (US) stocks and bonds losses of USD 15.5tn, or approx. 60% of US GDP.

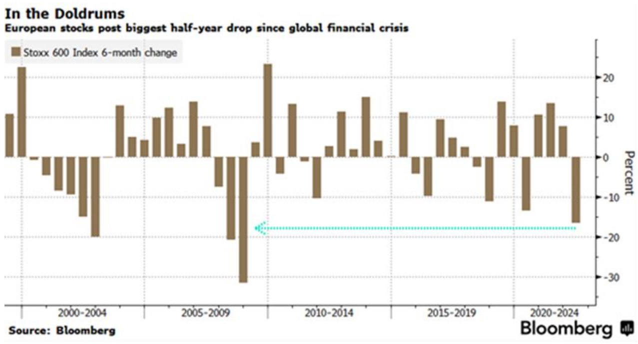


FINANCIAL ASSET DECLINE WORSE THAN THE GFC, The Macro Tourist, 27JUN2022



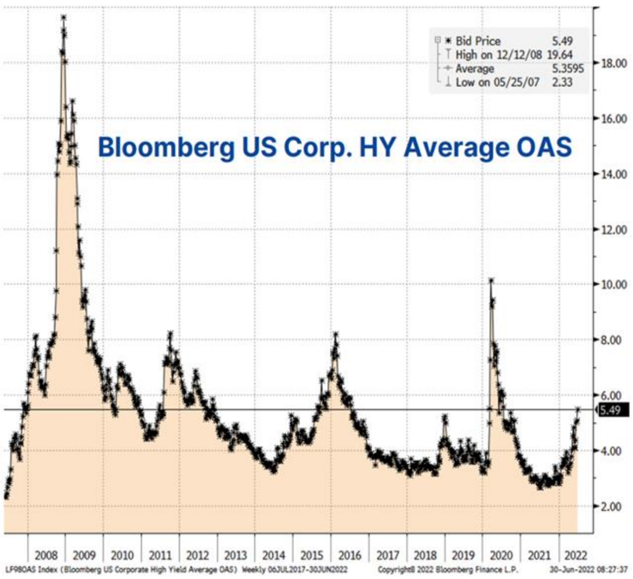
@SoberLook, Twitter, 20JUN2022

The always astute Macro Tourist put this into the proper perspective, showing with the graph above on the left how the total market capitalization of US equity and fixed income markets has returned towards its longer-term upward trend. European equity markets fared better, with the Euro Stoxx 600 down 16.7%, still the worst showing since the GFC in 2008.



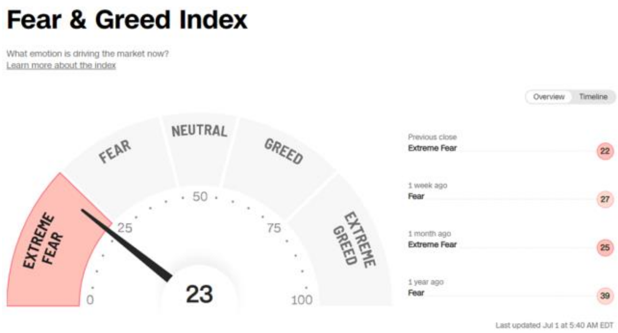
The Bloomberg Open, 1JUL2022

Anecdotal evidence of balanced fund and portfolio management mandates suggests 1H 2022 losses in the 10 to 20% area overall. Readers will have made their own experience; my hunch is that the numbers are generally at the higher end of the range, as markets were generally overweight FAANG type growth stocks, which in this downturn have clearly underperformed (Nasdaq performance during 1H2022 was -29.5%). Additionally, the fixed income allocation was dominated by corporate / high yield bonds, which amid spread widening always do worse than government bonds in a declining growth / recessionary environment.



Saxo Market Call presentation, 30JUN2022

On the other hand, EUR based mandates may have been helped by the weak EUR, which in the absence of exchange rate hedges should have helped boosting returns.



CNN Fear & Greed Index, 1JUL2022

So, what will 2H 2022 have in store for investors?

Market historians have pointed out that such a bad first half of a year is usually followed by a recovery, a viewpoint that could find support from currently extremely poor investor sentiment, which has often shown itself a contrarian indicator, at least in the short-term.

Personally, I find it hard to become too bullish at this stage, as the level of determination of central banks to tighten into this economic slowdown is uncertain, while the level of excesses to be purged from financial markets (both on the bond and equity side) still seem high. So far, investors also continue to remain focused on the old market leadership, preferring to still buy the dip (a bull market phenomenon) in the FAANG (the once known as Facebook, Amazon, Apple, Netflix, Google) and Nasdaq, while selling the rip (a bear market phenomenon) in commodity, energy, and other hard asset names.

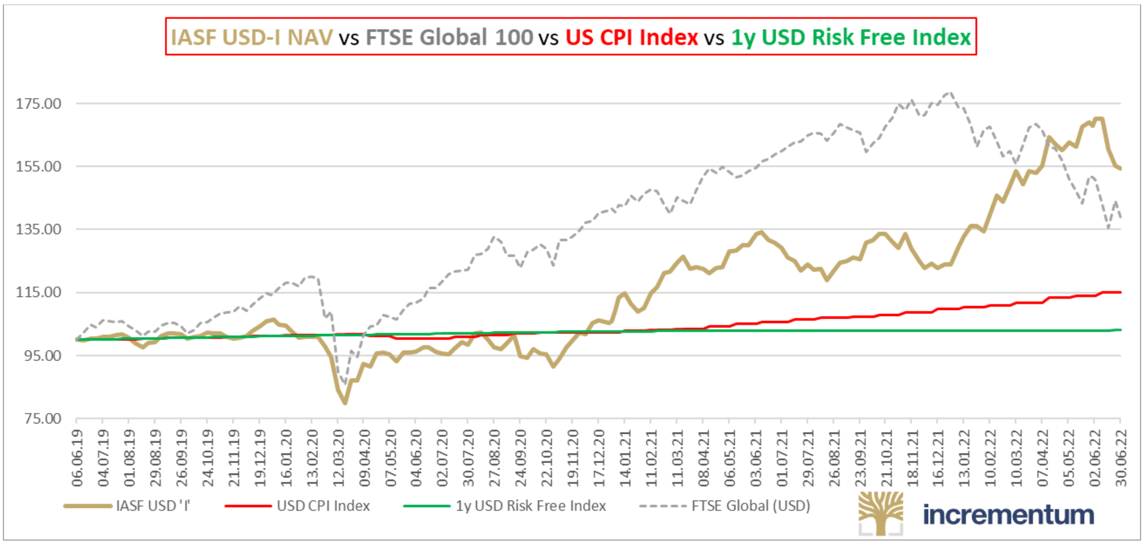
But as Harris Kupperman, aka Kuppy, has reminded his investors and readers (or viewers), we have entered what he calls Project Zimbabwe, which has always been the most likely end of the secular debt cycle, about which I have repeatedly written in these pages as well. And here it is important to remember that stock market capitalizations are also devalued by inflation, and the latter running at an 8% clip has clearly worsened the recent nominal price declines, so my conviction about further significant nominal downside to prices has been diminished.

The question is what do we as investors do in such a highly uncertain environment? – Well, one can of course move into cash and hope for better entry points. **IASF** has been doing this to some degree as our liquidity levels are decent. In addition, we hold what we consider a collection of attractively valued investments, though as the past few weeks have shown, this can result in higher short-term volatility.

So, at the halfway mark of this year, let's take a look at

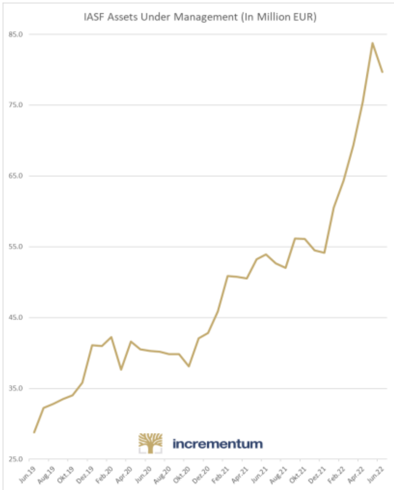
How the Incrementum All Seasons Fund has done and is currently positioned

The first half of 2022 was almost too good to be true. On the back of the anticipated growth-to-value rotation, **IASF's** USD-I NAV gained every month until May, and even into June, reaching its high of USD 170.25 on June 10, before experiencing a very sharp correction over the last three weeks of the month. Although we had expected a round of profit-taking at some point, we were clearly surprised by the drastic mood change experienced over such a short period of time, and the degree of the correction, which ultimately led to a 9.4% peak-to-trough drawdown, with the USD-I NAV closing June at 154.33.



The chart on the bottom of the previous page draws the big picture of **IASF's** first three years since launch. Arguably, the beginnings in 2019 were not very exciting, as we gathered seeding assets and put our portfolio management approach into place. IASF ended **2019** with a modest mid-single-digit gain, sufficient to beat both **inflation** (as measured by **US CPI**) as well as the **risk-free rate of return** (as measured by the **12-mths Treasury bill yield** (always assuming a roll-over at the start of the year at then prevailing rates). However, it lagged **global equity markets** as measured by the **FTSE Global 100 Index**.

2020 was the most difficult year so far, with the advent of Covid causing a sharp risk asset correction, in which **IASF** was hit far less brutal than equity markets. But amidst a severe recession, we were not prepared for the financial market mania that followed, ending the year flat, while CPI and the risk-free rate remained equally subdued, and global equity markets soared, boosted by Covid stimulus. **2021** saw the portfolio gaining traction, achieving real purchasing power gains, though ultimately still lagging global equities. Although this has never been our goal, by the end of **1H 2022** **IASF** has come out on top, beating global equities, and more importantly coming way ahead of both CPI and our measure of risk-free returns. Hence, all in all we are proud of the result so far.



Meanwhile, **IASF's** AuM have grown nicely since the dip in 4Q2020, and especially the past quarter has seen a wider interest in the fund which has yielded additional inflows.

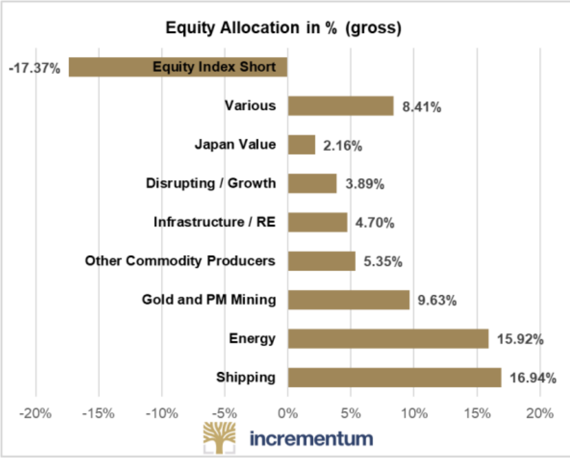
	5 years	3 years	1 year	6 months	3 months	1 month
Incrementum All Seasons Fund USD D	--	+17.19%	+34.29%	+37.94%	+9.53%	-4.32%
EUR Flexible Allocation - Global	+1.10%	+0.32%	-7.88%	-8.70%	-5.85%	-3.01%
Fund quartile	--	1st	1st	1st	1st	4th
Funds in category	588	761	954	990	1000	1015

As of Jun 30 2022.

Financial Times Markets Data, 30JUN2022

This was aided by **IASF's** consistent high rating in the top quartile (except last month) of its peer group. We have had lots of enquiries over the past few months, in which an often-heard comment has been that perhaps after this year's run it may be better to wait for a correction. I have always confidently denied that one can time an entry into the fund, but that does not mean that it always goes up. So, for anyone who was looking for a correction, June has clearly lowered the entry price significantly.

June was a brutal month for our favourite equity themes. **Shipping** saw profit-taking in everything but tanker stocks, among which Stolt-Nielsen gained 20% on excellent results. Dry-bulk stocks suffered double-digit losses, led by a 26% decline in Pacific Basin. The latter represented the loss of two-thirds of its end of May gains, though it still leaves a respectable 21% ytd gain. Given our still constructive outlook on the dry bulk market and volumes, we are convinced to see further upside during 2H 2022.



IASF equity themes, 30JUN2022

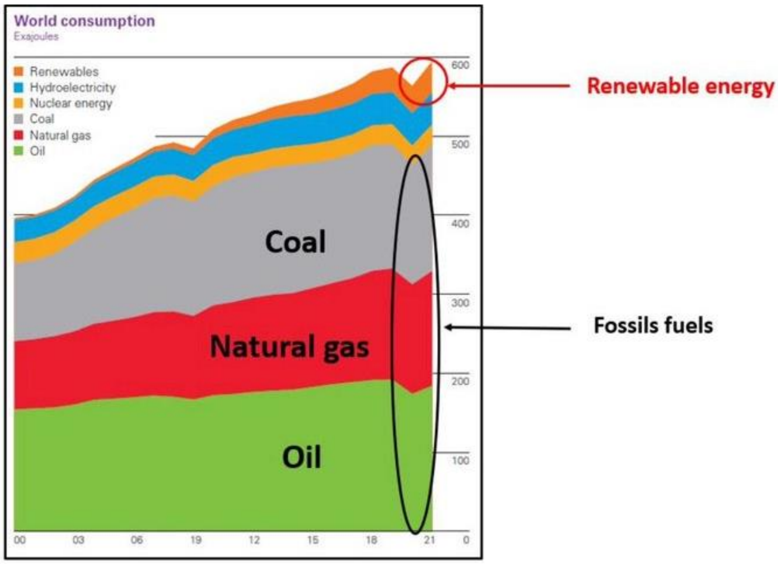
Compared to year-end 2021 we have reduced our exposure to Shipping by a fifth. Our current book comprises 15 different stocks, with a weighted average PE of 3.45, PB of 1.15 and a dividend yield of 10.5%(!). These numbers may serve as evidence for how substantially the valuation case for shipping has improved, the cyclicality of the business notwithstanding. Even the sell-side agrees, with analysts quoting average share price targets 47% above month-end levels.

XLE US (SPDR Energy Select Sector Fund), YTD, investing.com

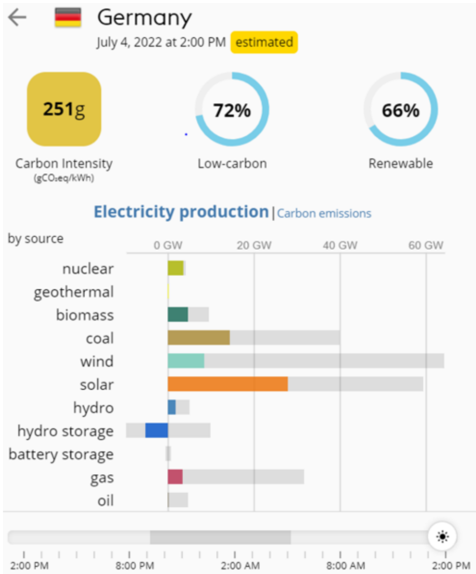
An even worse showing in June was delivered by **IASF's Energy** stocks, which were all in the red, and except for Technip Energies and Kazatomprom GDRs all double-digit, with the worst performance shown by Valaris (-29%). However, the average weighted monthly decline was 14.3%, which compares favourably with the 18% decline in the major sector ETF (XLE US). The chart on the left shows how nearly 60% of the prior gains of XLE US over the course of this year were eliminated in a mere three weeks. This suggests that investors have been pricing in quite a deterioration in sector fundamentals lately already.

The recent crash has lowered our exposure to the sector to less than 16%, compared to 17.1% at year-end 2021. Having said that our current crop of holdings has still delivered weighted 1H 2022 gains of 24%, while sell-side price targets suggest an average 55% upside for our holdings. (Not that we pay much attention to sell-side price targets, but this may still serve as confirmation of our investment case.)

On first glance, fundamentals are not quite as attractive as in shipping yet, but we would argue that energy will prove less cyclical than shipping and thus already today deserves higher valuations. The story is told (among countless others) by the two graphs below, that remind us of the world's ongoing dependence on fossil fuels-based energy and highlight the inefficiency of installed solar and wind power generation. At the time of writing this on July 4, 2pm, still near the height of Northern Hemisphere's sun intensity, my native Germany is estimated to utilize 47% of installed solar energy generating capacity and only 13% of wind generating capacity. That hardly sounds encouraging in view of our political determination to go green (whatever it takes!), and the clear and present energy scarcity, while it represents an irresponsibly inefficient use of scarce and expensive raw materials and other resources.



Gianluca, @MenthorQpro, Twitter, 2JUL2022



electricitymap.org, 4JUL2022,

Our current **Energy** book is trading at a weighted trailing PE of 13, PB of 1.7, and offers a 2.9% dividend yield. This may not sound like an extreme bargain, especially on the earnings side, but the sector is still early in its recovery. In addition, we have recently been increasing the weighting of energy services stocks, which are later in the cycle, but bound to benefit from the need for urgent and increased capital investments in the sector. Similar to the shipping cycle, we expect their written down assets to be a driving factor of intrinsic value and hence for share prices over the coming years.

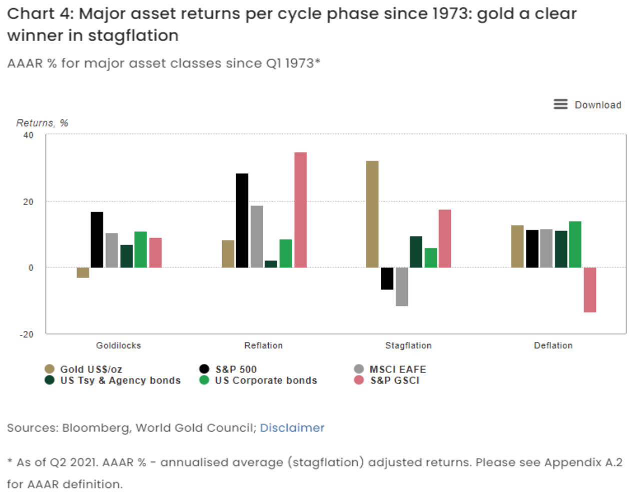
With investors suddenly keen to price in a deep recession and a correspondingly quick end to the inflation spike, as well as amid soaring cost pressures, **Gold- and Precious Metals Miners** have been an overall drag to the portfolio over the course of this year (current holdings have lost a weighted average 19% ytd) as well as in June. Ending with a portfolio weight of 9.6%, our stock picks lost 14.8% on a weighted average basis in June, which is in line with the performance of the FTSE Gold Mines Index last month.

We have cautiously added to our holdings in quality names (e.g., Agnico Eagle Mines or Kinross Gold), as we remain convinced that precious metals prices are a coiled spring. In fact, our holding in the Amundi Gold ETC has served its purpose as reliable cash alternative, as it gained 8.6% over the first half of 2022, reflecting a strong gold price in EUR, though platinum was only marginally higher, and silver lost about 5% (both in EUR terms).

Gold and Precious Metals miners have been a tricky investment theme so far, as their fate waxes and wanes with the underlying precious metals prices.

The chart on the right shows the FTSE Gold Mines Index, overlaid by the gold price in USD since **IASF's** launch. Not unexpectedly, it suggests that miners do well in an environment of rising gold prices, attracting speculators to this market segment. When the gold price consolidates, as it has done over the past 2 years, the air comes gradually out of the sector.

FTSE Gold Mines Index, Source: investing.com



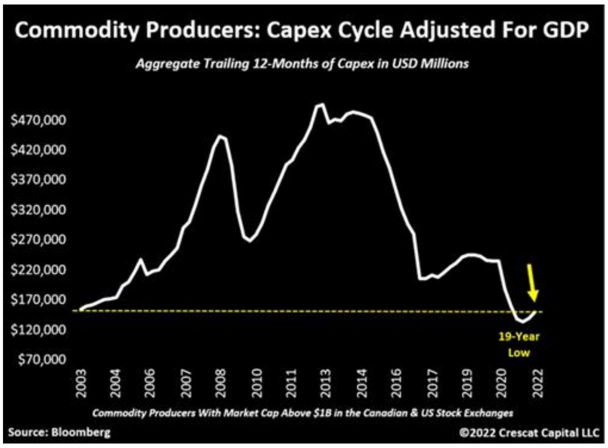
Stagflation rears its ugly head, World Gold Council, 12 OCT2021

So, if one had a constructive view for gold and precious metals prices (as we have!), this would seem like the appropriate time to add exposure rather than to eliminate it, especially when one considers how well gold has performed during stagflationary periods. Given that fiat currencies seem to be in a race to the bottom right now (we expect the Dollar's strength this year to prove transitory), precious metals miners are one way to gain exposure to the asset class, which at least by more recent historic measures appears exceedingly cheap.

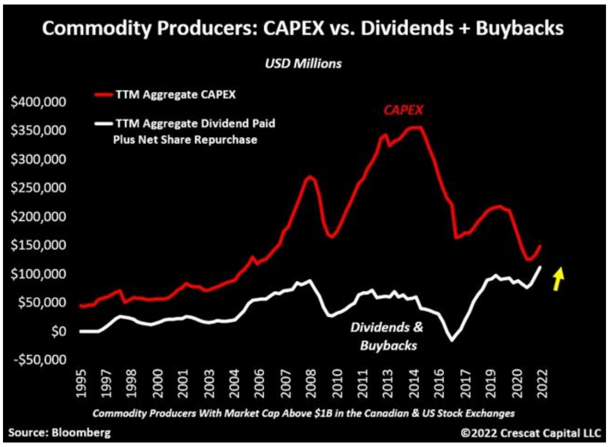
The sell-side again seems to concur, based on an average weighted trailing PE of 21, PB of 1.3, and a dividend yield of 3.25%, which is as much a reflection of recent strong cash flows and balance sheet repairs, as it is of management's reluctance to substantially increase capital spending. With low valuations and shareholder friendly capital allocation it is not surprising that analysts are quoting average price targets of 65% above month-end levels for our basket of shares.

Our **Other Commodity Producer** bucket also suffered from heavy profit-taking last month, showing a 22% weighted average price decline, which in a few cases eliminated the entire year-to-date gain and some. With our holdings all representing exposure to scarce hard assets, and generally being well managed, while as a group trading at an average PE of 8.5, PB of 1.5, and offering nearly 5% dividend yield, the investor in us is comforted by what is priced in already. Our **Infrastructure** / **Real Estate** bucket showed a bit more resilience in June, though four out of five holdings experienced losses roughly in line with overall fund performance, while a near 6% average dividend yield promises adequate compensation for what we would regard as medium-term inflationary pressures. The final theme that accounts for more than 5% of **IASF's** assets is our **Various** bucket, which was also broadly in the red given the dominance of economically sensitive and hard asset stocks. Year-to-date returns (-20%) in this bucket have been catching up with overall market trends, bringing valuations to an average weighted PE of 9.5, PB of less than 1, and a dividend yield of 3.25%, with sell-side analysts pencilling in 72% upside to their average price targets.

Our conviction remains that we are facing the revenge of the real economy, which after having been neglected or taken for granted for years is reminding investors of its importance. Though the short-term outlook has massively shifted in recent weeks, predicting an incoming recession due to policy tightening and related demand destruction after severe price rises over the last year, the longer-term outlook is dominated by decades of underinvestment in the real economy, as especially advanced economies relied on a sheer endless supply of cheap resources, mostly from emerging economies. (And given the prevailing political winds, we expect shareholder friendly policies from commodity producers to continue.)



Tavi Costa, @TaviCosta, Twitter, 28JUN2022



Tavi Costa, @TaviCosta, Twitter, 28JUN2022

Covid and rising geopolitical tensions have clearly shown the disadvantages of such reliance. And while Western politicians are still pursuing a metal-intensive push for a more carbon-neutral future, they have yet to answer the question how we are going to source the required resources at reasonable prices without the world investing in the discovery of new and the replacement of already extracted reserves.

Someone has already coined FAANG 2.0, which is described in the table on the right (regrettably, I cannot recall its source), and we see this as the overriding theme of the coming years and have thus taken exposure accordingly, except to Aerospace as we hesitate to invest in the military complex.

F (fuels)	• Geopolitical tensions, strong demand, constrained supplies, underinvestment—a number of factors will keep energy prices elevated over the medium term. Despite the outperformance of the Energy sector year-to-date (YTD), the sector still accounts for just 3.7% of the S&P 500 market cap, well below a 13.4% weighting in 1990.
A (aerospace)	• Defense stocks have outperformed the broader market YTD by 19%[4] amid expectations that heightened geopolitical tensions could lead to greater military spending. • Germany has pledged twice its annual defense budget; the U.K. and others made less-specific pledges. At minimum, NATO requires each member to contribute more than 2% of GDP by a 2024 deadline. Defense spending is also climbing in Asia; spending on cybersecurity will remain in a secular upswing.
A (agriculture)	• The planet will need to produce more food in the next four decades than in the past 8,000 years. The Food and Agriculture Organization's (FAO) Food Price Index hit an all-time high in January 2022. • Equipment shortages, higher input costs, climate challenges and burgeoning demand from the EM middle class all suggest more upside earnings potential for the global agricultural complex. Ditto for the expected decline in agricultural exports from Russia and Ukraine. Russia supplies about 20% of world wheat exports; Ukraine supplies about 10%, according to the FAO.
N (nuclear and renewables)	• Nuclear energy has the highest capacity factor of any energy source, producing reliable, carbon-free power more than 92% of the time—twice as reliable as coal (40%) or natural-gas (56%) plants and almost three times more than wind (35%) and solar (25%) plants.[5] • Renewable energy use increased as the pandemic induced major declines in all other fuels in 2020. Long-term contracts, ongoing installation of plants and priority access to the grid underpin renewables growth.[6]
G (gold and metals/minerals)	• Viewed as a "safe haven", gold prices are up over 6% in 2022 and posted the best February since 2016, underscoring worries over inflation and war. • The Electric Vehicle (EV) transition will be mineral-intensive. A typical EV requires six times the mineral inputs of a conventional car, according to the International Energy Agency. • The high mineral intensity required for batteries could imply 40 times the current lithium demands by 2040.[7]

As I am writing these final lines on July 7, **IASF's** NAV has corrected even further, as the relentless selling in our favourite themes has continued. The most difficult part– as always – is to deal with the emotional stress of handling such a sharp drawback. Even after 3 decades plus managing money, it remains a challenge to not succumb to bouts of regret. Some investors may ask, why we did not lower our risk exposure in late May after a 35% NAV run? – And the answer is that such questions are typically asked with the benefit of hindsight. I received the first investor suggestion to sell everything when we reached 10% performance but felt the fundamentals would ultimately yield far higher prices which proved correct. And the recent correction, though disappointing, especially for new investors, does not change this one bit.

As fundamental investors we constantly evaluate all our holdings and as they were still attractively priced in May, we merely pruned them. Since then, share prices have become far cheaper again, discounting ever deteriorating fundamentals. But despite of the growing prospect for a recession, we doubt that the bulk of our investment holdings will be adversely affected fundamentally, as we consider demand for their product and services rather price inelastic. Meanwhile, company fundamentals still look very strong and hence our bias is to add rather than sell. Here I would like to remind investors that we are neither traders nor speculators, but long-term value-focused investors, and as gut-wrenching as the recent setback has been it is (unfortunately) an integral part of the investment experience.

As I am planning a short break with my family next week, it is time to wrap this piece up here. If any investor has further questions concerning **IASF's** positioning, I will be delighted to answer them following my return to the office during the week from July 18.

In the meantime, please recall that All Seasons Investing does come with ups but downs as well, as short-term investors and financial markets do not always concur with our view of the world. But we have undertaken this project to prove that active and benchmark unconstrained portfolio management can deliver superior long-term returns, and as responsible portfolio manager and investor I am still satisfied with the outcome so far.

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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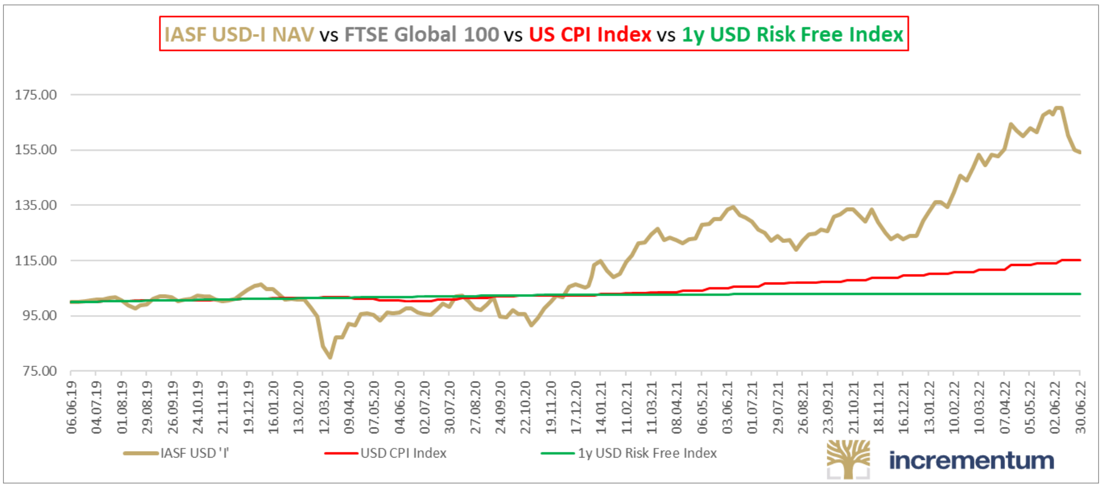
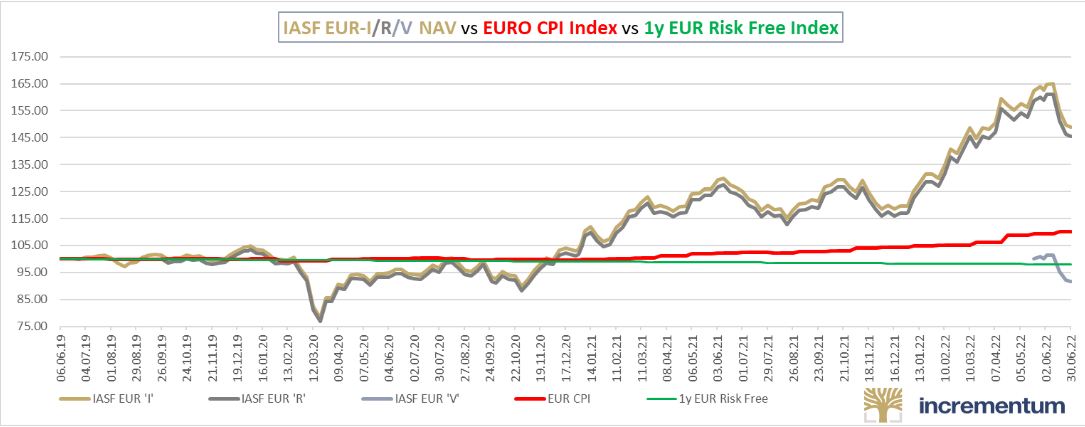
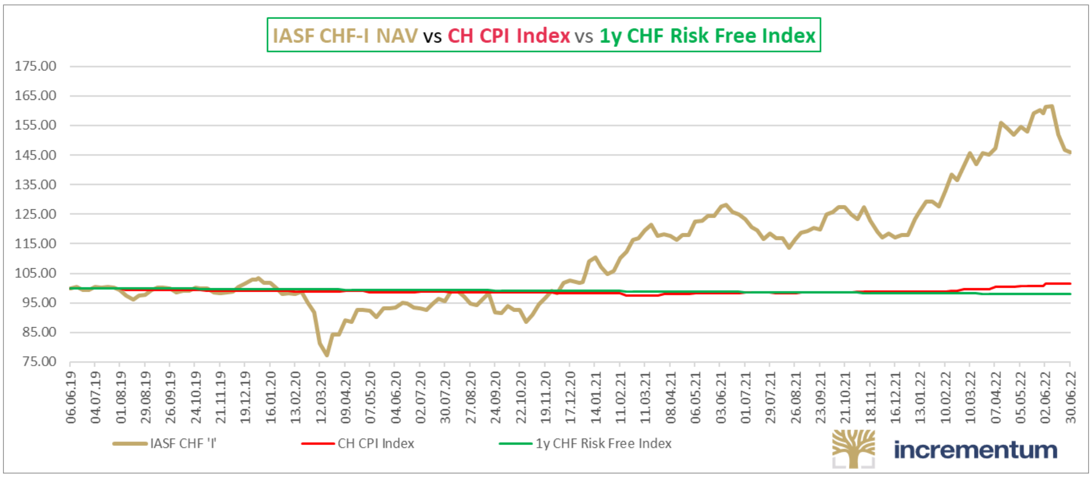
Appendix *







* Graphs display NAV of IASF performance until last valuation date (**30JUN2022**), 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 and 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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