# Incrementum All Seasons Fund

*– in pursuit of real returns –*

2023 / 04

## *Seasonal Reflections*

***Beyond the rational***

Dear Reader,

Autumn has arrived "im Ländle", and thus it's time for a new edition of our **Seasonal Reflections**. We have had a lovely summer and beautiful autumn, but lately temperatures have fallen towards low single-digits, while first autumn snow crowns the mountain ranges guarding the Rhine valley.

It has been a busy time for us **Incrementum** partners, but apart from work we still found time to make merry. The reason was our CEO, Stefan's, 60th birthday, which we belatedly celebrated after our September board meeting, by taking him up to Staubern Alm, just across the Rhine from Liechtenstein. Here we spent a beautiful afternoon with a leisurely hike, enjoying the stunning alpine views, followed by Apéro, incl. the usual spirited conversations, and finally dinner at the Berggasthaus.

An afternoon at Staubern Alm with Christian, Stefan, myself, Mark and Ronni (from left), 26SEP2023, HGS pics

We should clearly do this more often…

And speaking of **Incrementum** internals, I am pleased to report, that our team has got a new member. Anja Förster joined us in October as Fund Management Assistant and is looking forward to support both Christian and myself in our work with **IASF**, URF, as well as potential new projects. – Welcome, Anja!

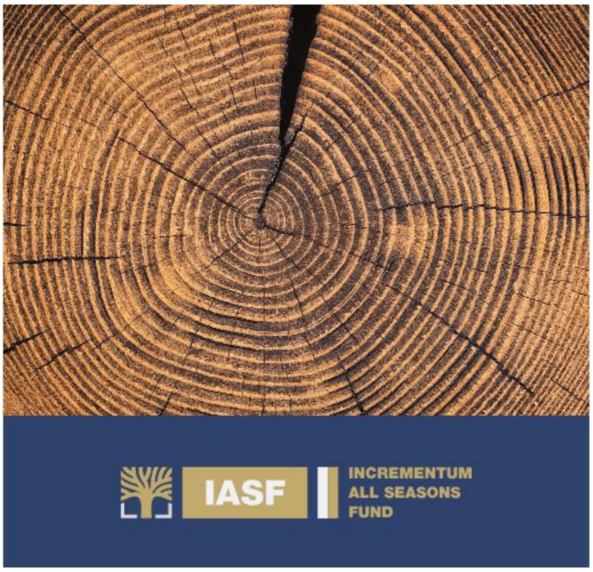
Anja, together with my assistant Chloe Galla, will also help organizing our quarterly **IASF** webinars. (The next one is scheduled for December 12, 3pm, but it will only be held in German.) So far, Harald Steinbichler from Vienna based axessum GmbH, has been our professional host during our first two webinars, but his expertise is better used elsewhere.

Harry continues to work closely with **Incrementum** on sales and fund distribution, and also helps organizing our at Fonds professionell Kongress 2024 in Mannheim, where all **Incrementum** fund managers will be available for meetings. However, as far as **IASF** is concerned, we have decided to insource investor relationship management and provide this out of Schaan with the help of our two new colleagues.

With these personal and housekeeping messages out of the way, let's have a look at today's program:

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





## BEYOND THE RATIONAL

When I began writing this report, October was about to turn into November during a week which saw the strongest rally in US share prices of the year, recovering most of the prior October losses. What had caused it was not any drastic improvement in fundamentals, but instead the fact that both equity and bond markets had been oversold in the short-term and investors were betting on positive seasonality.

As manager of our **All Seasons Fund**, I am of course aware of seasonal patterns, but it strikes me as simplistic to assume that they can be relied upon, regardless the circumstances. If so, there would be no more need for any kind of fundamental analysis. And yet so far this time has not turned out different, and it is frustrating to realize that our risk management measures compensated most of the upside thrust from the long side of our portfolio, keeping **IASF** in drawdown territory.

FTSE Global 100 Index, investing.com

Why do I mention that? – Because investing is far more than conducting a competent analysis of facts and events. Sure, we can analyse past data and determine seasonal patterns with accuracy, but as the investing industry gets not tired pointing out in its disclaimers, the past is no reliable guide to the future. And I would argue that the current fundamental circumstances are such that typical seasonal patterns might not hold, though so far, I have been proven wrong. And this leads me to one of the biggest challenges, which represents dealing with the influence of all that is beyond the rationale, i.e., the emotional struggles investors are faced with.

When people talk about the process of investing, the subject will typically revolve around analytics, forecasts, or general assessments, whether of individual assets, whole asset classes / market segments, or even political or societal trends and developments. The latter clearly dominates in our current day and age, where whole news channels and an endless array of podcasts and investing media, not to mention scores of analysts at major financial institutions, are occupied with reading the tea leaves on what central bankers (and politicians) are doing or saying, or what various (supra-)national statistic bureaus or thinktanks are publishing.

Like most professional investors I also spend a significant amount of time on dissecting the macro picture (after all, "*We worry about top-down*"), because like everyone in the industry, I have had to learn the hard way that in today's world of passively driven investment flows, surprises in the macro data can lead to large moves in entire markets. And yet, after three decades in the business, I know that we are not dealing with rationale investor behaviour and thus efficient markets. In fact, the most underestimated factor in the investing business may well be investors' sentiment respectively their emotional state of affairs. This has been systematically studied in the field of **Behavioural Finance**.


@trader_53, X, 27OCT2022

In universities they teach students about Homo Economicus and the rational investor, and any analyst and commentator in the investing arena will strive to present his or her view in a rational manner. But when it comes to making investing decisions with real (and preferably one's own) money at stake, **emotions such as Greed and Fear** can become over-whelming. Personally, I have spent 3 decades trying to master these sentiments, and I can still not claim that I remain unaffected from the greed & fear push and pull...

Another mind game to be aware of is **Herd Behaviour**. Most investors tend to follow the crowd and make investment decisions based on what others are doing or talking about, which in turn can lead to market bubbles or crashes. The recent phenomenon of the Magnificent Seven stocks is a result of herding – and here I am not referring to the institutionalized kind that is passive investing. This has never been something I have been afflicted with as I have a strong contrarian streak and am suspicious of crowded trades.


Weekly Comics, 20JUN2023

And if that is not challenging enough, there are also a whole array of **Cognitive Biases**, such as **Confirmation Bias**, **Overconfidence**, and **Anchoring**. Personally, I find confirmation bias rather challenging to avoid. One way to do this is by consciously looking for disagreeing views on an investment idea, which is one of the reasons I tend to read a lot. Overconfidence on the other hand has been less of a problem for me, as my self confidence level has never been high to begin with, and I struggled with self-doubt in my formative years in the investment business. Anchoring refers to the tendency to rely too heavily on the first piece of information encountered when making decisions, a phenomenon I believe is more commonly found in non-professional investors.

Loss Aversion, YouTube, 19FEB2019

Another phenomenon studied in the field of behavioural finance is **Loss Aversion**. It describes how investors are typically more averse to losses than they are motivated by potential gains. This can cause them to hold on to losing positions in the hope of avoiding the realisation of such losses, even when it may be more rational to sell.

As investment manager, I have also had my struggles with this phenomenon, which has played an important part in shaping me as a value-driven investor rather than a trader or momentum investor. It may also explain my contrarian streak. Both these investor characteristics help to reduce the loss potential at the outset of a new investment, though it also tempts one to sell too early.

Related to this is **Regret Aversion**, which has individuals make their decision with the primary goal of avoiding future regret. This can often lead to decision paralysis, and I have met quite a few investors in my career, who were afflicted by this phenomenon. Personally, I have learnt to handle this over the years, and it helps to know whether one trades (on a short-term technical basis) or invests (on a fundamental basis).

Of course, this offers only a tiny glimpse into the science of behavioural finance, and anyone who is interested in exploring this further will find plenty of literature on the subject. Personally, I found Daniel Kahneman's "Thinking, Fast and Slow" a great read on how the human mind works and on the role that emotions and intuition play compared to rational and deliberate decision-making.

Meanwhile, I am convinced that these behavioural aspects, that are ultimately the result of investors being faced with a high degree of uncertainty about the future, are easily underestimated in the investing process. Thus, being cognizant of these issues and having a reasonable level of self-awareness can lead to better long-term investment results.

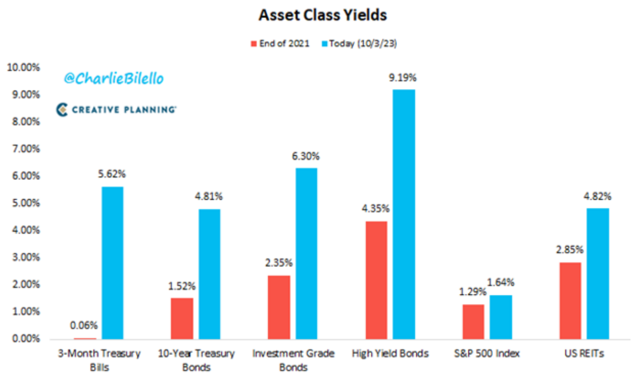
But a note of caution to my readers: Even after more than three decades as professional money manager, I have not been able to entirely detach from the investing process mentally. In fact, without the emotional aspects I might have found this business rather boring by now. But it can also be a source of great frustration when your own expectations and positioning prove wrong and hard-won territory on the way up for the **IASF** NAV is given up again. But in the end, this is part of the game.

Some may argue that computers can help, and AI optimists already see the human brain and mind becoming altogether obsolete in the investment process going forward. I sincerely doubt that though. Technology is an important tool to support an investment manager, but I have seen too many quantitative and computer models in my time that promised the sure thing and yet eventually failed in delivering sustainable above average investment results. Hence, rule No. 8 of my personal Investment Lessons (s. p. 21 for the full set): *"There is no magic formula for perfect investing. Hence, consider both macro- and micro-economic aspects, be diligent, flexible, patient, keep an open mind, and realize that investing will always remain more of an art rather than a science."*

But I am obviously biased here, and thus the proof is in the pudding…

## WHEN ALL NEWS IS GOOD NEWS

Reviewing this year's financial market action so far, I cannot deny being surprised. After all, last year asset prices across the board suffered from the inflation spike-induced rise in interest rates. The latter has continued this year, and yet equity markets have been rallying once more. – The magnitude of the overall yield move we have witnessed since the end of 2021 is displayed in the graph on the right.

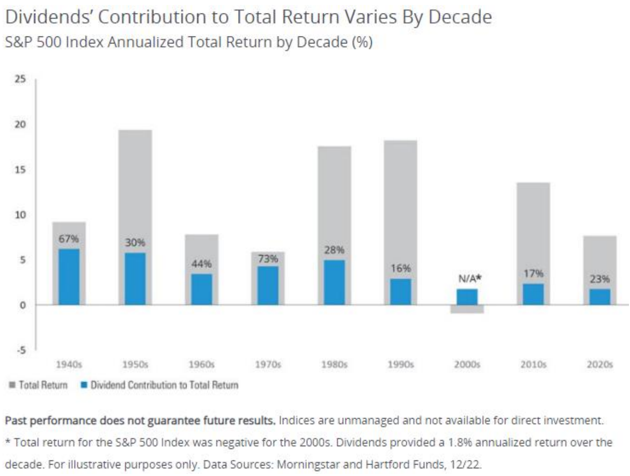



The Week in Charts by Charlie Bilello, 8OCT2023

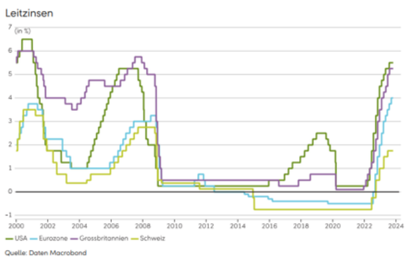
While the (dividend) yield on the S&P500 has risen by 35bp over the period,

- the yield on US REITs has soared by 200bp,
- 10y US Treasuries by 330bp,
- IG (Investment Grade (rated)) bonds by 400bp,
- and on 3-Mth Treasury Bills and High Yield Bonds by more than 550bp.

The fact that dividend yields have barely risen compared to fixed income yields highlights that investors don't care about dividends anymore. And who would blame them? After all, they have been conditioned to expect price appreciation to drive returns, as during the 2010s, dividends accounted for only 17% of total returns. However, during the inflationary 60s and 70s, dividends accounted for half or even three quarter of total returns. One way to get to such levels would be (c.p.) a sharp reduction in share prices…




Hartfordfunds, 2023 Insight, The Power of Dividends

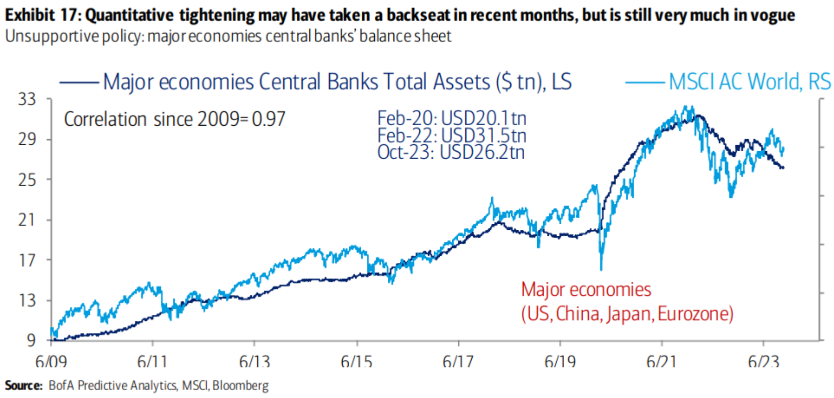



LLB-Investmentforum, 7NOV2023

In any case, it is worth to recall that the main explanation for rising equity valuations over the past decade was the fact that interest rates (and thus risk-free opportunity costs) were reduced towards zero, and price insensitive central bank asset purchases were the tide that lifted all boats. But now that interest rates have risen and Quantitative Tightening has replaced the erstwhile Easing, this does not seem to matter anymore… – Isn't that odd?

In other words, when short-term interest rates were at 0%, an investment into more risky equities with a long-term average total return of approx. 8% p.a. compensated investors generously for the higher risk accepted, namely via an 8% equity risk premium. But now that short-term (risk-free) interest rates have risen towards 4-5%, that same risk premium has more than halved. Is it reasonable to expect that this will not have any consequences on investors demand?

At the same time, central banks spent billions on their "Large-Scale Asset Purchase Programs", effectively (and again c.p.) adding a sizable source of new (and price insensitive) demand for financial assets, in the process helping to boost equity prices.




BofA Global Proprietary Signals, 20OCT2023

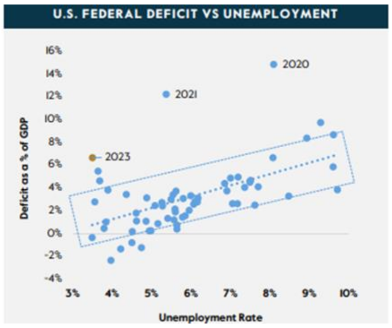

Picture from MacroTourist, 23JUL2020

Now that they are reducing their balance sheets systematically by selling these assets again, it means that not only has that source of financial asset demand disappeared but has turned into a new source of added supply. – Again, this is not supposed to have an impact on financial asset prices?

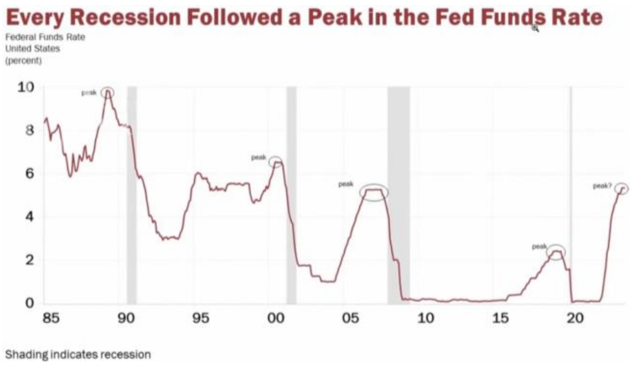
Doesn't that strike readers a tad "optimistic"?

This is merely one reason why I – like many of my fundamentally driven peers – am puzzled by equity markets' reluctance to respond to this changed environment. Now, one might argue that firm stock markets this year are due to stronger than anticipated economic growth, which so far has been surprisingly resilient in the wake of soaring financing cost. My own interpretation, which was more extensively laid out in SR-2023/03 (p. 11 ff), suggests that the time lag between the rise in interest rates and consequentially slowing credit and financing has been extended, as the private sector has been prudently lengthening the maturity profile of its existing debt during the COVID years with its ultra-low interest rates. But this merely means that the tightening effect on the economy has been delayed.

In addition, economic growth continues to be fuelled by elevated fiscal deficit spending, which is raising some eyebrows even in the public sector, where the Bank of International Settlement (BIS) has stated that governments around the world are "*testing the boundaries of what might be called the region of stability*" (FT, 25JUN2023) by leaving fiscal policy loose during an economic boom. The graph on the right highlights this well, and I am convinced that these kind of outlier deficits are unsustainable.




Carlyle 2023 Global Investor Conference




David Rosenberg on Thoughtful Money, 16NOV2023

But with the dynamic of the recent fiscal push slowing, and the impact of interest rate hikes increasingly felt, the question on our mind should be whether the world is not heading for a recession? – David Rosenberg in a recent appearance on Adam Taggart's new YouTube channel "Thoughtful Money" showed how interest rate peaks in the past were usually followed by an economic contraction.

Despite of this, any negative economic news is currently viewed as a step closer to the coveted soft-landing scenario, which as David argued in his interview is usually merely a precursor to a subsequent recession. In fact, the only time rising interest rates did not eventually cause a recession was in the mid-1990s, as the Greenspan Fed hiked interest rates unexpectedly and rapidly. This led to the first serious bond bear market I personally experienced, being a rookie portfolio manager at Deutsche Bank in Düsseldorf at the time, and responsible for one of the poorer performance years in my career, though US growth never turned negative.


@chigrl, X, 16NOV2023


@jsblokland, X, 7NOV23

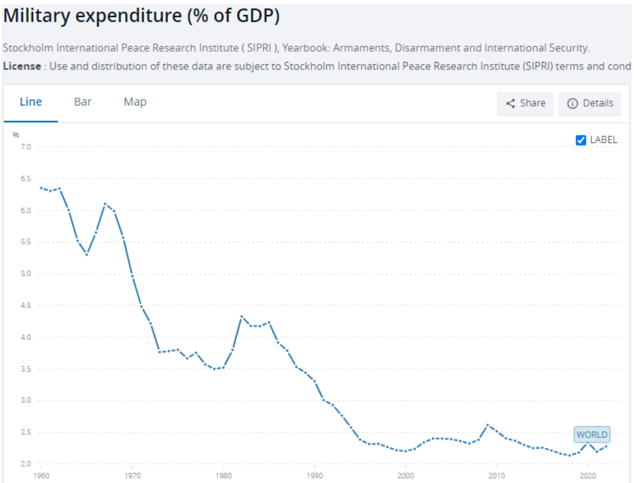
Meanwhile, for my German readers, there seems to be no end in sight for the weakness in German industry, with industrial production now a staggering 17% below the trend from 2010s, meaning over a hundred billion Euros in lost output. But that has not stopped the German DAX to approach its all-time-highs again… – This also fits the pattern, where every news is good news.

What is also still widely ignored by investors is the geo-political front, which hasn't looked that bad in decades. The global power struggle between the USA and China has seen relations worsen for years already, and I see little reason for that trend to reverse. As a result, the benefits of globalization, free trade and the exploitation of comparative cost advantages and specialization have been increasingly eroded by growing barriers to trade and fragmentation, as well as a post-Covid trend for re-shoring. This is a structurally inflationary process.

Even worse, the world seems to have become an ever more hostile place, where actual military conflict and wars are on the rise. Russia's war on the Ukraine is already in its second year, and there seems little progress on both fronts, as Russia's larger army has been held in check by the supply of modern weapons to Ukraine by the US and its Western allies, and any serious effort to politically mitigate is sorely missing.

What caused a big shock when it started has by now been relegated to background noise, as attention has shifted towards the new Israel / Hamas war. On October 25, I read an interesting comment by Ian Bremmer on the situation titled "What should Israel do next", and at the time of writing this it is clear that Israel has started the ground invasion into Gaza, which Ian warned would be counterproductive. We have yet to see how the conflict eventually unfolds, but this remains another highly unstable situation, with potential for further escalation.

All these developments have a common longer-term impact, namely, to increase military spending globally. Relative to GDP, military spending had been going downhill during the second half of last century, delivering what is commonly known as peace dividend, before bottoming out over the past two decades, and it now seems ready to reverse. It is also inherently inflationary and represents another structural demand factor for commodities, as is, by the way, the politically driven energy transition in western (advanced) economies.




Data from World Bank / SIPRI

BBC, 15FEB2022

Trillions have already and will further be spent on promoting (and subsidizing) green energy sources, and eventually on the complete revamp and upgrade of the electric grid with the goal of being able to handle a far larger share of intermittent power sources. Funding this will be a challenge, while the impact on global emission levels and thus the world's climate is at least debatable.

Since I have written about this matter in prior editions, I'll spare you another recital. Instead, I recommend listening to Robert Friedland, founder and co-chairman of Ivanhoe mining, who as keynote speaker at *The Northern Miner's* Canadian Mining Symposium in London, U.K., recently gave his as usual candid views on subjects like Green Energy, Electrification, Metal Scarcity, and more. – It is well worth spending 40 minutes on, and a notable quote for investors was certainly: *"All the mining companies in the world are under 1% of the S&P500..."*

For now, this has been overlaid by short-term cyclical trends and expectations that we will soon have left the inflationary spike of the past few years behind us and can enjoy once again a proper Goldilocks environment. This is not what we at **Incrementum** believe, as we are convinced that we have entered a period of a new investment paradigm, where bonds and equities are no longer offering decent diversification and real assets will return to favour. This is due to the fact that the world struggles to deal with its mounting debt burdens, a subject I have written extensively about in SR-2023/03 and earlier editions, as well as to satisfy its basic needs for raw materials, while inflationary pressures increasingly debase paper currencies. But this will be a decade-long process, which as often happens comes with its usual fits and starts.

Which brings us to the last chapters of this report, namely what we can expect over the rest of the year and into next, how we have been investing in this challenging environment and how **IASF** has fared recently.

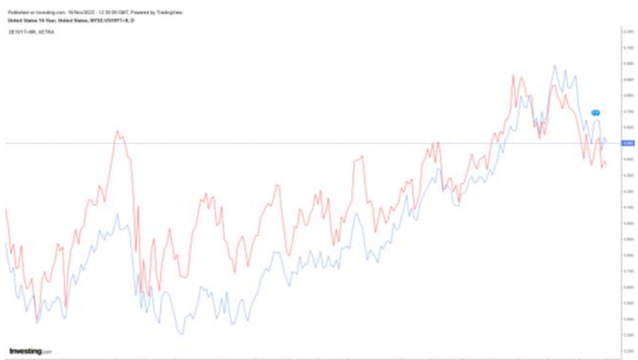
## FINANCIAL MARKETS AND IASF ON THE FINAL STRETCH OF 2023

The prior chapter suggests already that not everything has gone as planned for **IASF** this year. But before we review financial market and **IASF's** performance and positioning, 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.**

By the time that I have got here, November has already progressed to half-time, and we have just had what the FT called "a near-perfect inflation report" in the US, which sent risk assets soaring again following a powerful bounce from the October lows. As a result, global equities as represented by the FTSE Global 100 Index have been approaching this year's highs again recently. At the same time, bond yields have corrected by approx. 10% from their October highs.

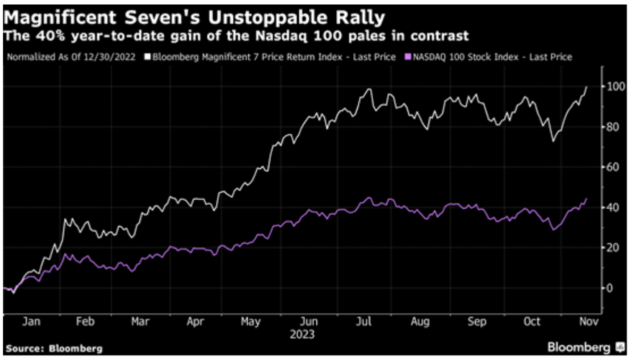
FTSE Global 100, investing.com, 16NOV2023



US- and DE-10y government bond yield, investing.com, 16NOV2023

Clearly, the extent and violence of the recent equity market rally has been a surprise to us. One day, it looked like equities might be ready to break the 200-day moving average and two weeks later they are flirting with the year's highs again. And although the economy has all in all fared better than anticipated at the start of the year, opportunity cost in terms of the level of the risk-free rate of return have equally surprised on the upside, which fundamentally might have led one to expect a flat market at best. But it seems that greed (or FOMO, i.e., the Fear Of Missing Out) is still the prevailing investors' sentiment at this juncture.

Consequently, most major equity indices are in bull market mode, led by S&P 500 (+17.3%, as of Nov15), while Europe's STOXX 600 managed to advance 6.5%. But both have been far outpaced by Nasdaq 100 (+45%) and in particular the so-called Magnificent Seven (AAPL, AMZN, GOGL, META, MSFT, NVDA, TSLA), which on an equal-dollar weighted basis have amazingly doubled this year.

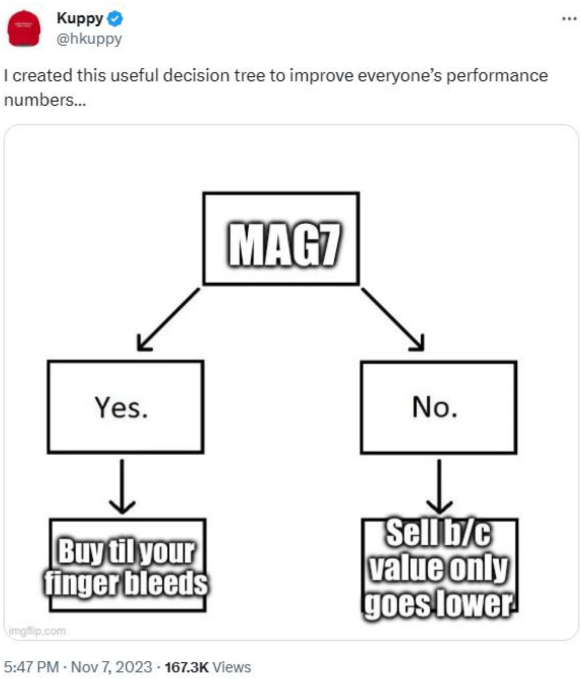



John Authers, Points of Return, Bloomberg, 16NOV2023

This has run counter to our expectation that rising interest rates and structurally higher inflation will lead to a rotation out of high growth and long duration assets into value and hard assets. The typical argument justifying this renewed stampede into Big-Tech is that *"the biggest tech companies are in a strong competitive position, and still growing"* (Points of Return, Bloomberg, 16NOV2023).

But is that not an overly rosy view, when e.g., Apple's stock is up 45%, while its multiple has expanded by 50%, and the company has been reporting declining sales for the past four quarters? Or when Tesla's net income in 3Q2023 plummeted by 44% year-over-year, but its shares have roughly doubled this year? – And did I mention the rise in interest rates?

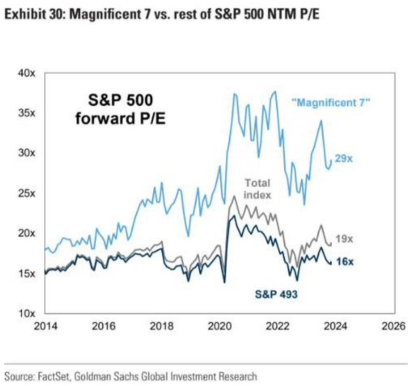

Source: Hedgeye




@hkuppy, X, 7NOV23

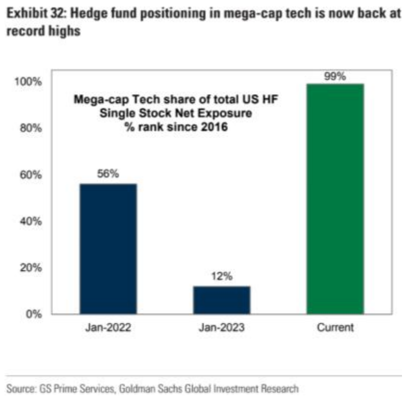
Elon Musk referred to the latter in TSLA's 3Q conference call: *"I'm worried about the high interest rate environment that we're in. ... So that's -- if interest rates remain high or if they go even higher, it's that much harder to -- for people to buy the car. They simply can't afford it."* – He uttered this on Oct 18, and the stock dropped 20% subsequently, but has recovered the entire loss by the time I'm writing this.

These are just some examples for how detached tech stocks and in particular the Mag 7 have become from fundamentals. As value investors this only leaves us with one possible choice in Kuppy's decision tree, which I expect to pay off over the course of the coming year.



@albertedwards99, X, 16NOV2023

Of course, not all of the Mag 7 delivered poor results, but I cannot help but note that valuation growth far exceeds that of fundamentals, and how hot these stocks currently are is not only evidenced by the launch of new leveraged single-stock ETFs on Tesla or Nvidia.

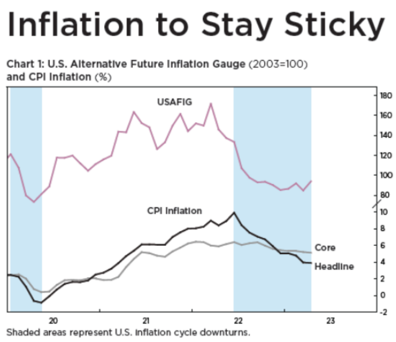


@dailychartbook, X, 16NOV2023

Readers may argue that this is a repeated justification for our avoidance of these shares, which so far has worked in investors favour less often than not. But we are fundamentally driven investors, and hence for quite a few years already have found it impossible to buy the Mag 7 or broader Nasdaq Index. In fact, anyone who has followed us a while will know that **IASF** has rarely been without Nasdaq shorts, and though at times that cost us performance (e.g., 2021 and 2023) it also helped us to generate an outstanding 2022 result. So having been wrong in the short-term is nothing new to us.

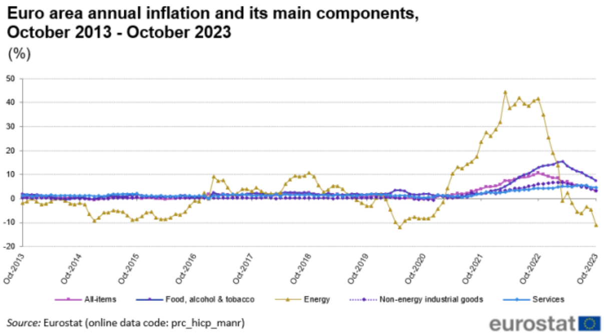
Long-term investing success for us depends as much on analysing the macro environment as choosing a portfolio composition that could thrive in it. But that has never prevented us from being early with our picks, missing out on opportunities, or sometimes even being plain wrong about our allocation and investment choices. But here it is worth remembering that a) this can always only be found with hindsight, and b) that long-term results are what matters to investors. Personally, I also get quite frustrated if my investment decisions do not pan out as expected, but in the majority of cases they have actually done so.

So, despite of the hoped-for seasonal uplift, I expect equity markets will struggle to rise much further from here, as the economic outlook darkens, while a further decline in inflation rates is hardly a certainty. In fact, Lakshman Achuthan, Co-Founder of the ECRI in its US Cyclical Outlook (and a Macro Voices presentation) pointed out that ECRI's forward-looking inflation gauge has recently picked up again. Meanwhile, the Fed's own official measure of sticky inflation has stabilized around 3.5-4% and average wage growth around 5.25%.

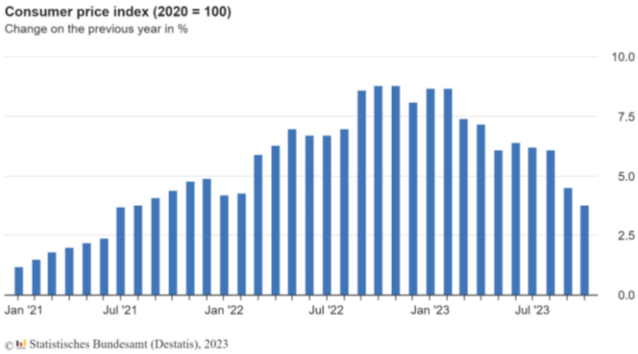


Shifting Cycle Risk, ECRI, 13NOV2023

The situation is not much different in Europe, where the economy is on the brink of a recession, while inflation rates have been declining but remain too high, and wage growth is falling more slowly. Most of the recent decline in the inflation rate was driven by plummeting energy prices, which however are unlikely to go down much further from here.




**Inflation** in the euro area, Eurostat, 17NOV2023




German CPI, Statistisches Bundesamt, Oct2023

That may also be the reason why the ECB does not want to consider rate cuts until inflation has permanently declined to 2% or lower. I think this is very unlikely to occur, which is why I find it hard to warm up to the idea of buying long-term government bonds. After all, 10-year German Bunds at a current 2.55% are still offering negative real yields versus the latest 3.8% German CPI print.

Thus, it is hard to find bonds attractively priced, and I am still doubtful that we have seen the peak in the current long-term interest rate cycle. The argument that is often made is that we will eventually end up in a recession, which will reduce demand sufficiently to depress inflation back to the desired 2% or lower. But in such an environment the question about the solvency of individual countries may have to be considered more urgently, and longer-term bonds may have to offer higher risk premiums, which they should already do due to significantly increased overall debt levels. (For anyone looking for more qualified input, here is a recent CNBC interview with Bridgewater founder Ray Dalio on the subject.)

With all that said and the recent spurt in broad asset prices, I continue to find it hard to turn really bullish. Instead, I expect challenging market conditions over the remainder of the year and particularly next, as the bear market in equities has yet to fully unfold and bond yields are at best in neutral territory and thus do offer no real value either. And I do not seem to have that view exclusively, as the following headline suggests: Buffett's Cash Hits Record $157 Billion Amid Scarce Deals

Or as one of the great investors of our time, Stanley Druckenmiller, in the Robin Hood NYC 2023 Fireside Chat with Paul Tudor Jones said: *"I don't know what we're doing at 20 times earnings… – the market is 20% above its normal valuation, when you have a fiscal recklessness problem, when you have supply chain problems, when you have the worst geopolitical situation I have seen in my life-time… – not exactly an environment that excites about paying 20-30% above normal for equity prices."* – Amen!

## IASF PORTFOLIO – AT A GLANCE

As the table below shows, the first 10 months of the year 2023 delivered results for **Incrementum All Seasons Fund (IASF)** that were overall quite satisfactory, with an early year rally, followed by a correction from April to June, and a subsequent recovery until the end of October. (Please note that this is not unusual, as performance can be lumpy, which is why we always emphasize the long-term nature of this investment vehicle.)

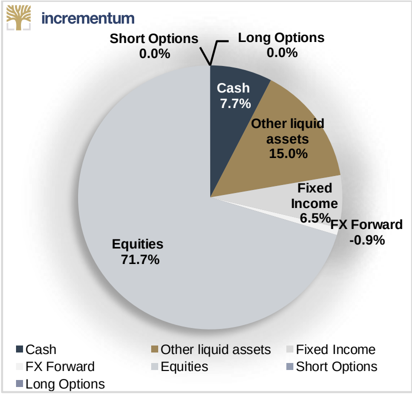
| | USD-I | EUR-I | EUR-R | EUR-V | CHF-I | CHF-R |
|---|---|---|---|---|---|---|
| **Latest NAV:** | **188.16** | **175.81** | **170.88** | **107.10** | **169.25** | **104.06** |
| **October Performance:** | -0.85% | -1.02% | -1.07% | -1.10% | -1.19% | -1.19% |
| **2023 Performance:** | **8.57%** | **6.28%** | **5.95%** | **5.62%** | **4.85%** | **3.87%** |
| **Since Launch p.a.:** | 15.77% | 13.96% | 14.30% | 5.17% | 12.96% | N.A. |

Since then, however, **IASF** has hit another air pocket, which has seen performance fall sharply by about 4.5% in November, as of the time of writing this on November **17/18**. – What were the reasons?

Brent Oil Futures, investing.com

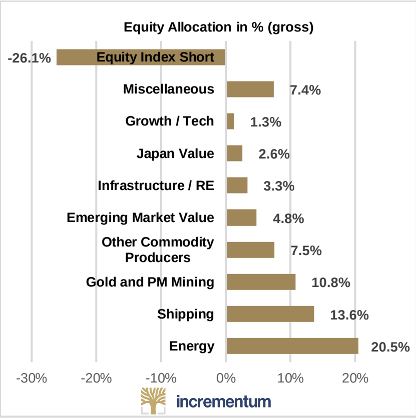
First, there has been a substantial decline in oil prices so far in November, which have shed roughly 10%. Brent oil is down 18% from its September highs and 42% from its 2022 peak. This has seen our **ENERGY** holdings drop sharply as well. **SHIPPING** was also weaker, though the losses in these two sectors were broadly offset by gains across the rest of the equity portfolio.

Meanwhile, our risk management positions cost us dearly (-2.6% on our Nasdaq 100 and S&P 500 shorts as well as our VIX long futures). Our precious metals ETFs and XAG holdings contributed another 0.4% to the drawdown. On the FX front, a weaker USD (-0.5%), JPY (-0.25%), CAD (-0.2%) and NOK (-0.1%) also provided significant headwinds.




**IASF's** gross equity allocation as of November 17 has increased by roughly 10%-pts since our last report. This was mainly the result of us buying into weakness in some of our favourite equity themes, but also to a lesser extend due to smaller outflows registered so far this month.

Fixed Income allocation has remained largely unchanged, as we still do not find much to get overly excited about on valuation grounds.

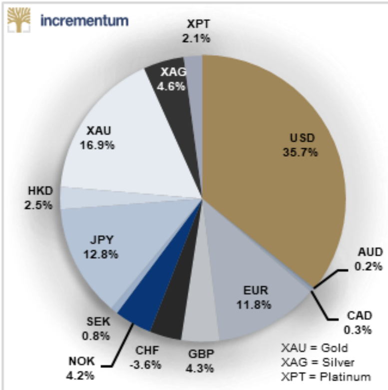



The increase in equity allocation has mainly benefited **ENERGY** (+2.3%), **SHIPPING** (+2.4%), **GOLD & PM MINING** (+2.9%), **EM VALUE** (+1%) and **MISCELLANEOUS** (+2%), while we have seen minor exposure reductions in **INFRASTRUCTURE / RE** and **JAPAN VALUE**. **OTHER COMMODITY PRODUCERS** and **GROWTH / TECH** remained largely unchanged.

Net equity allocation has also increased by 10%.

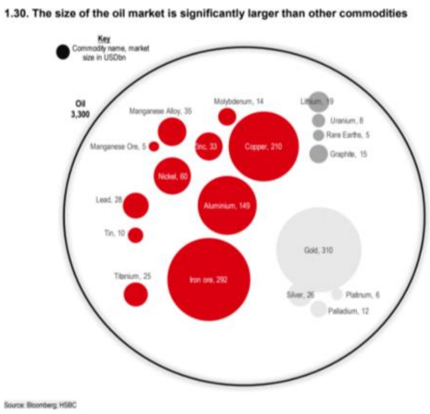
As of this moment, there are no new investment themes in the pipeline.

On the FX side, things have shifted with USD exposure (on a look through basis) rising by about 11%, while effective EUR exposure fell by slightly more than 20%. JPY exposure rose by 7% as a result of a long JPY / short CHF FX contract that we find fundamentally attractive. Gold exposure rose by nearly 3%.




We have been mulling the idea to hedge USD into EUR, but believe it is too early and that over the rest of the year and into early next there is a good chance for the USD to rally again towards parity.

Some investors may feel that the portfolio in its current composition – especially on the equity side – is too sensitive to the economic cycle. That argument can certainly be made.

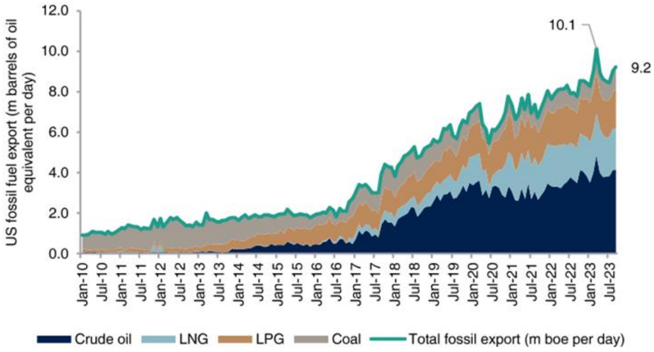



M'tourist Private Feed Recap, 14SEP2023

But we do not try to discern how things develop over 6 months, but rather follow a longer-term time frame, and we see little reason to change our allocation to **ENERGY** as our largest investment theme, given the long-term tailwinds from reduced supply and growing demand. But since I have discussed this subject extensively in prior editions, I will not repeat the argument here, but point you to **IASF / Seasons Reflections** in our Journal.

But make no mistake, energy transition or not, the largest and most powerful country on earth has a clear economic interest to extend its recent track record of becoming a major energy exporter.

The US's financial and military support for Ukraine in its war against Russia, while curtailing the latter's own fossil fuel export potential especially to Europe, means that it now has created a new and growing demand source for its own fossil fuel exports. As the graph on the right shows these have become a major source of export income over the past decade, which we expect will only grow from here.



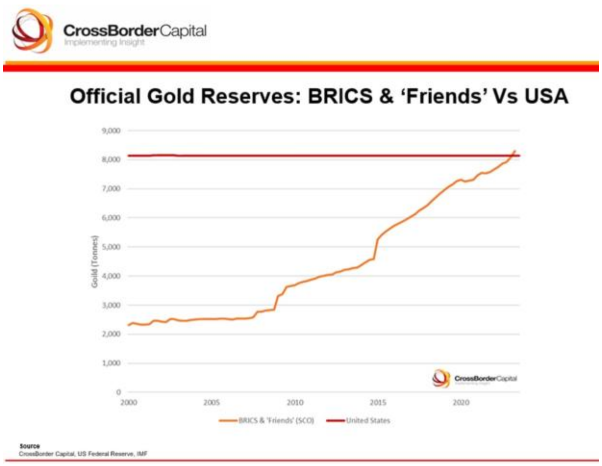

ABGSC, Shipping & Transp. Sector comment, 8NOV2023

| Dividend Yld | P/E Ratio | P/B Ratio | EV/Sales | EV/EBITDA | EBITDA/Interest |
|---|---|---|---|---|---|
| 9.02% | 7.36 | 1.14 | 2.11 | 4.87 | 15.81 |

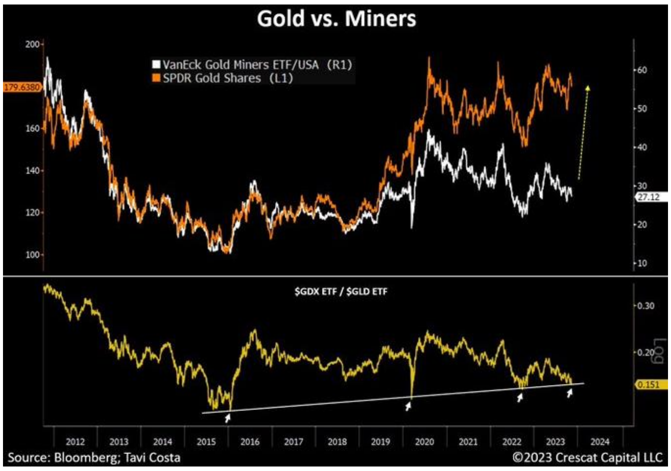
Meanwhile, **SHIPPING** has become a true value case, as average valuations of our book show.

Sector balance sheets are the strongest we have seen in decades, and rates in our favourite tanker and dry bulk sector at levels that are highly value accretive.

A sector we have not talked about for a while is **GOLD & PM MINING**, where we have been adding to our holdings recently. Of course, no one can make the case for gold, precious metals and the miners better than my dear colleague and **Incrementum** partner Ronni Stoeferle, who last week gave a keynote speech on the subject in Zürich, which can be found here. It is well worth watching.




@jsblokland, X, 23OCT2023



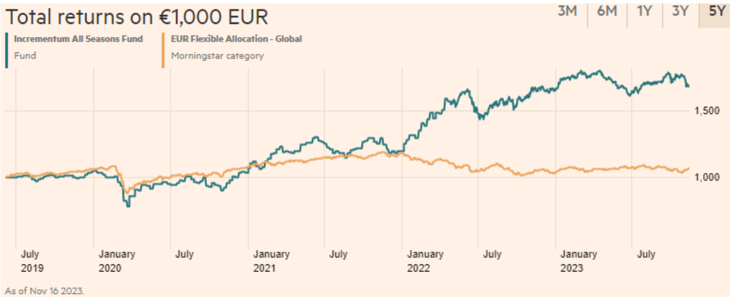

@TaviCosta, X, 12NOV2023

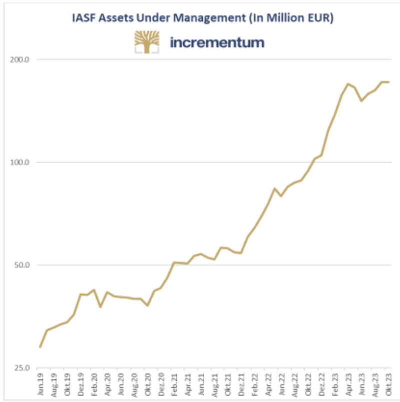
In it the case is not only made on how gold is regaining its status as an international reserve asset, although it is predominantly The East rather than The West that is buying, but also how the performance of gold miners has recently been lagging that of the yellow metal.

## CLOSING REMARKS: 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 close with a chart on **IASF's** AuM, which have risen more than 60% this year to EUR 171m as of the end of October.




When I review our **IASF** venture, I can say without exaggeration that I have put everything into it over the past few years. I am pleased about how it has developed (see FT chart above for a visualization) and that our seed investors have harvested solid returns in the process. Your support was crucial in getting **IASF** off the ground, and for that I will always be grateful.

For our newer investors, I can only reiterate that investing is a long-term endeavour that requires patience. And I assure you I am as determined to continue delivering on our promises of real returns as on the day I started, and thus to prove that active portfolio management is worth paying for.

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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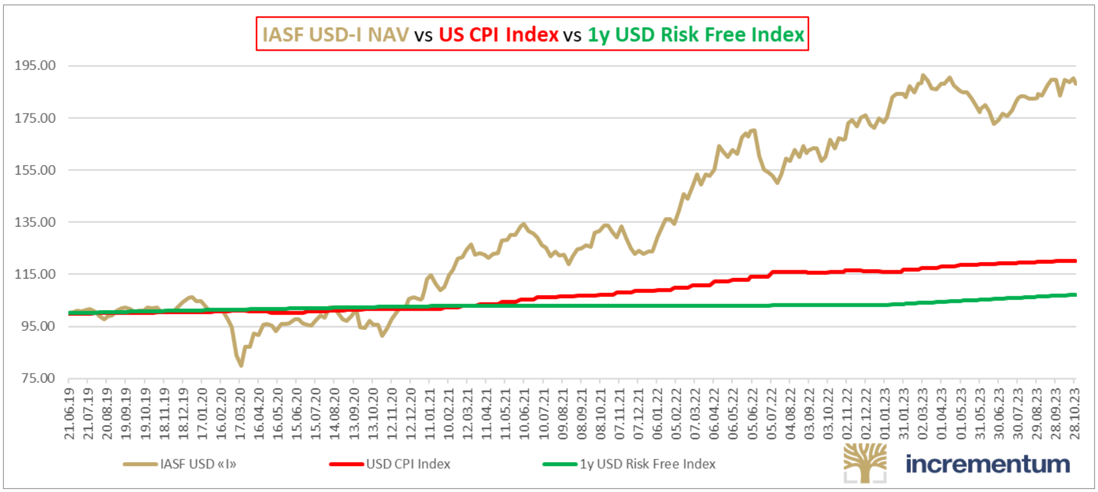
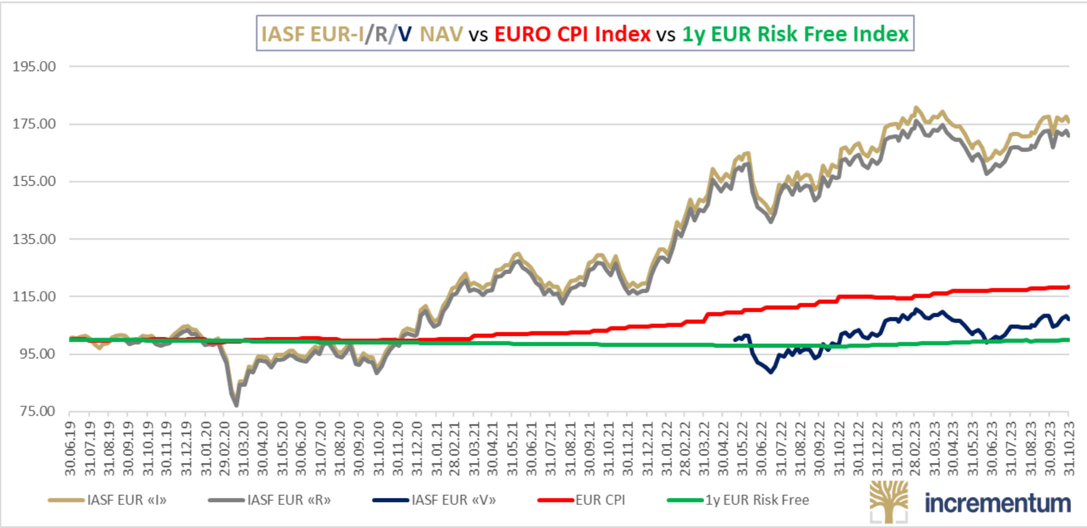
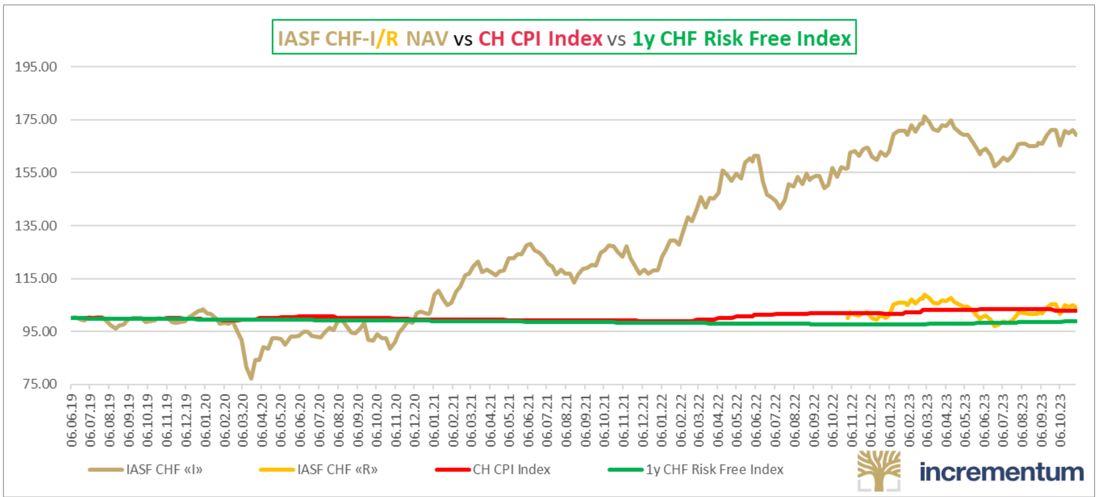
## Appendix *




* Graphs display NAV of IASF performance until last valuation date (**31OCT2023**), 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; 2NOV2022 for CHF-R 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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### Disclaimer