Incrementum All Seasons Fund

– in pursuit of real returns –

June 2019

Seasonal Reflections

(Pictures from Frastanz / AU, by the Buddhist monastery)

The season is spring, and though today (May 28) the view from my home-office is rather grey and rainy, last Friday was a beautiful spring day. I used it among others for a hike, which yielded the above pictures – and later during a stroll through the woods some spruce and fir tree sprouts, which I collected to brew a liquor based on an old family recipe. It also bore the seeds for today's reflections:

Spring - A new beginning

Until May 10, I had worked for nearly 30 years as Private Banker, providing investment advisory and portfolio management services to high net-worth individuals. In the process I used to keep my clients up to date on my views of global political, economic and financial market developments with regular (VSP) reporting and the occasional weekend reads.

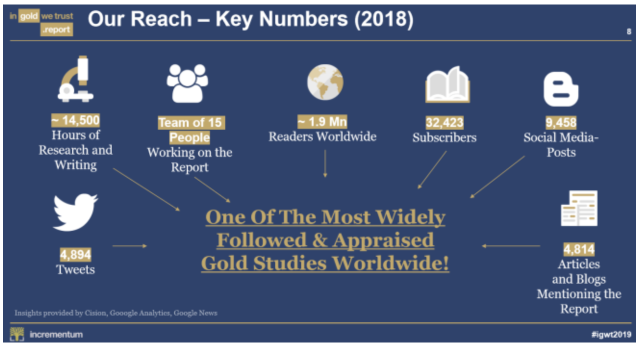
It was always something that I immensely enjoyed doing, and I like to think that is has made a difference to my clients (and other interested readers) as well. It helped them to understand how I view the (investment and wider) world, and how that view has been shaping my investment strategy and individual picks. In a world that is flooded with information, where news is often hard to discern from commentary, and truth from "fake news" (just a politically correct word for lies), my goal was always to provide honesty and transparency, rather than mere marketing. In short, something that is worth reading.

The last few months have been spring to me, a season of great change. First my resignation from LGT and the related handover of business, and then the last 2.5 weeks on "vacation", which I spent mostly at home, trying to adapt to a changed daily routine, while working on my new business venture. Setting up / restructuring a fund is cumbersome like all administrative things are, but I am glad to say that I am on course to get the **Incrementum All Seasons Fund** off the ground on June 5.

Many people have asked me *"Why did you resign from Private Banking and decide to move to the Asset Management side?"* – Well, the wealth management business is no longer what it used to be. You will have heard me (and perhaps other bankers) complaining about the burden that regulators and in extension the bank's Legal & Compliance department have put on me in my daily business. But more important was my realization that the industry does no longer want me bearing two hats, those of an independent investment advisor and portfolio manager. It has become thoroughly institutionalized. And between maintaining the close relationship of a banker, in exchange for giving up my independence as investment advisor / manager and securing the latter by giving up my role as a client's representative at his bank, I chose the latter.

I did it in an attempt to regain the time and resources needed in our modern day and age to successfully navigate extremely challenging financial markets, and to seek investment returns that offer my investors as well as myself sustainable and real (as in "adjusted for inflation") wealth gains. It also helps to reduce or eliminate existing conflicts of interest. That is why I have not only decided to become a fund manager, who manages his own wealth in the same vehicle as his investors, but also why I decided to join **Incrementum AG**.

I discovered my new partners back in 2013, when I first read their "**In Gold We Trust**" report. The 13th issue was published yesterday in German, English, and this year for the first time in Mandarin, and is available for download here: https://www.incrementum.li/en/ingoldwetrust-report/ The 2019 *"report's leitmotif refers to the erosion of trust in politics, society, and the global monetary architecture"*, something I have been extensively writing about myself.



Source: IGWT Marketing Presentation

Incrementum not only offered me the opportunity of a properly set up fund management business, which is licensed, regulated / supervised and thus has the necessary institutional credibility, but also to do so realizing my own ideas in a truly entrepreneurial fashion. Unlike other similar companies I have come across in Liechtenstein, **Incrementum** is first and foremost research- rather than sales-driven, which is something I immediately found particularly appealing. The four founding partners are experienced ex-bankers and asset managers with different areas of expertise, who are all developing their own business, and I look forward to joining them from June with the same goal, but also to help grow and strengthen the overall company.

In pursuit of real returns

So, what are my plans for the **Incrementum All Seasons Fund**? – Well, as most of you know I have always aimed to run "All Weather" portfolios that flexibly adjust to the market season and seek investment opportunities globally.

But assessing where both the economy and financial markets are in the cycle (my Investment Lesson No. 1) has been particularly challenging - for me at least - over the past couple of years. This is due to my underestimation of the effect that massively sized central bank asset purchase programs have had on financial asset prices, as well as how much mostly passively driven investors have been prepared to ignore fundamentals and thus valuations. Consequently, what has rightfully been dubbed the "Everything Bubble" has continued to expand, and in hindsight me and my clients were too defensively positioned. Reminiscent of the 2008 painful losses (and in observation of my Investment Lesson No. 5) my own as well as clients' portfolios have held outsized cash holdings as well as exposure to what in the past had used to work as tail-risk hedge, i.e. instruments that tend to go up when overall risk asset prices go down.

https://app.hedgeye.com/insights/75466-cartoon-of-the-day-ambush?type=cartoons

Some have indicated that this was a misguided approach, but the effectiveness of this strategy will only be proven when the bear market finally unfolds. Without the benefit of hindsight, I felt it prudent (in line with my Investment Lesson No. 3) to place more emphasis on capital preservation, even if that meant giving up some upside in return for better downside protection. And knowing that I will never have the benefit of hindsight, I would do the same thing again.

Incrementum All Seasons Fund is a strategy fund, not a sector or regional fund. It offers investors the chance to participate in a global investment portfolio, which targets an annual return of 4% above the risk-free rate of return as defined by the 1-year government bond yield in each fund currency, which historically has been a good proxy for inflation. This can only be achieved by assuming risk, and as risk is the *"possibility of loss or injury"* (https://www.merriam-webster.com/dictionary/risk), this suggests that losses can happen. Investors who have worked with me in the past will have a number of individual examples to draw upon in this respect.

At the same time (and in a financial market sense) a risky investment works both ways, i.e. if properly assessed and valued, it will also beat the return of a risk-free investment, often by a wide margin. The latter is not usually considered a problem for investors, and usually more quickly forgotten. However, the former can also turn out merely a temporary loss, as risky asset prices have a tendency to fluctuate around what might be considered fair or intrinsic value. And the best investments I have made in my life were often in securities that initially fell further below what I thought was fair value, and thus became even more undervalued. This is where patience and discipline in the investment process is vital.

Amid my recent exit from LGT, I have been distanced a bit from markets and my investment strategy and picks, and thus I do look forward to get back into the game next month, as I am seeing exciting opportunities in some areas of the market, despite of an overall massive overvaluation. One such area is the shipping sector, which heads into 2020 under new IMO (International Maritime Organization) rules that demand ocean-going vessels to use low (0.5%) sulphur fuel oil blends, marine gasoil or run LNG to comply. They can also fit ships with exhaust scrubbers to continue to burn high-sulphur fuel oil. As a consequence, it is reasonable to expect shipowners to travel at lower speed in order to reduce consumption of the more expensive diesel fuel, which effectively reduces available capacity, and thus c.p. should be positive for freight rates. In addition, it will help some refineries who will be able to produce low sulphur fuel in their expected business outlook. As both sectors look unduly cheap at current price levels, this remains an area of interest. Another area is the telecom infrastructure sector, which has just had one major player banned from competing in the build out of 5G networks, which I believe has interesting consequences for the remaining companies in the sector.

Of course, these are only two themes that will have an impact on asset allocation, which overall will still seek to protect the portfolio from large losses when the inevitable cyclical financial market downturn / bear market arrives. For more information on the fund, which will be launched on June 5, and available in USD, EUR and CHF, please do not hesitate to contact us.

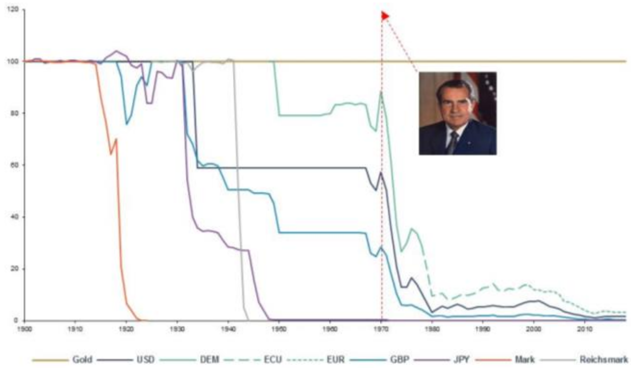
Challenging times

The past years have shown how difficult it is for investors to navigate ever more complex and at times seemingly irrational markets. This is where **Incrementum All Seasons Fund** will help. After all, over the further course of 2019, the outlook continues to remain rather challenging. An inverted yield curve, driven by plunging 10-year yields, declining copper and other commodity prices, a still surprisingly resilient (i.e. strong) US Dollar, and generally weakening economic surprise indices do not bode well for equities nor bonds, which display the worst risk-/return ratio on record, over the further course of the year.

FTSE Global 100 Index, Source: MarketMap

And neither does the obvious pick-up in volatility levels, with growing downside thrust building. Following the VIX implosion in Feb/Mar18, and the near 20% correction in 4Q18 amid the Fed's apparent determination to remove the punch bowl, global equities have ran up again only to see the trend turn once more in May, amid a more realistic assessment of the trade wars and a rather sobering economic outlook. - All in all, a scenario that suggests caution remains the name of the game.

Let me close with one final graph from my future partners at Incrementum, which displays how fiat currencies have performed compared to gold over the past 120 years. It bears testimony for how gold has acted as an anchor to paper currencies for long periods of time. But eventually when the promise to convert paper money into gold at a pre-set ratio was broken (e.g. President Nixon in Aug71), the value of paper money has always headed for its intrinsic value, which is zero. This is why 'In Gold We Trust'!



https://twitter.com/igwtreport/status/1132572608162091008?s=11

Remember the most dangerous words in investing: This time is different!

Greetings from Liechtenstein,

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