ATLANTIC HOUSE
INVESTMENTS

Atlantic House Dynamic Duration Fund

QUARTERLY UPDATE

Q1 2024

Fund Overview

The Atlantic House Dynamic Duration Fund aims to deliver capital growth over the medium to long term through a systematic and signal-based investment strategy, that is designed to outperform in a wider range of inflation environments than a conventional bond fund.

Quarterly commentary

After a very rewarding end to 2023 for bond investors, Q4 proved to be a very hard act to follow. Despite indications from central banks in most developed markets of upcoming rate cuts, the specifics regarding the timing and extent of these cuts remain unclear. We continue to see goods and energy prices persist in their decline, the resilience of wages and labour markets suggests that central banks may opt to postpone rate cuts until there's a more pronounced and sustained trend of disinflation. Having been late to the party in hiking rates, central banks now face concerns over potentially stalling economic growth if they are late to cut them.

We saw weakness across fixed income markets in January and February caused by strong inflation prints as the opposing forces of lower goods inflation battled it out with sticky services inflation, underpinned by firm wage growth data. As expectations for future inflation increased, gains on the funds inflation swap positions provided a valuable offset to losses on the interest rate swap positions.

March provided a welcome reprieve to the market as central banks provided some reassurance that rate cuts were still on the cards. During the March FOMC meeting, a clear commitment was made to lower interest rates "at some points this year," attributing the recent spike in inflation to temporary, seasonal factors. The main takeaway was that they are likely to tolerate a higher level of inflation and are prepared to see it fall 'over time'. The latest Fed dot plot shows US monetary policymakers increased their expectations for inflation in 2024, yet their view on the decline of policy rates was unchanged. This adjustment hints at a readiness to accept a 3% inflation rate, overshooting the traditional 2% target, acknowledging the potential economic risks tied to aggressively pursuing a reduction to that final percentage point. Similarly, the Bank of England (BOE) conveyed an openness to higher inflation levels, evidenced by a shift in stance among its traditionally more hawkish members against further rate increases. All in all, this proved to be good for the fund's interest rate and inflation swap positions as rates fell and inflation forecasts rose.

We believe that 3% core CPI may well constitute a 'soft landing'. In this case the fund's position in US inflation swaps is very attractive as these swaps price 10-year inflation at 2.58%. UK inflation is at around fair value on a similar view.

Performance Attribution (Total Return)				
Exposure	Jan	Feb	Mar	Q1
UK Interest Rates	-1.03%	-0.86%	0.56%	-1.33%
US Interest Rates	-0.54%	-1.39%	0.16%	-1.77%
UK Inflation	0.05%	0.29%	-0.01%	0.33%
US Inflation	0.07%	0.10%	0.06%	0.23%
Cash	0.36%	0.35%	0.30%	1.01%
Total	-1.09%	-1.51%	1.07%	-1.54%

Yield at the start of month				
Month	Jan	Feb	Mar	Apr
UK 10 Year Rate	3.5%	3.6%	3.8%	3.7%
US 10 Year Rate	3.5%	3.5%	3.8%	3.8%

Funds allocation to rates			
Month	Jan	Feb	Mar
UK 10 Year	100%	100%	100%
US 10 Year	100%	100%	100%

Past performance does not predict future performance.
Source: Atlantic House as at 28/03/2024.

Q1 Signal changes

There were no changes to the fund's signals in Q1. We remain neutral with a signal of (3/6) meaning the fund is at 8.3 years duration for both UK and US positions. The last change came in December, the US component switched some interest rate exposure for inflation swaps. This adjustment proved to be beneficial for the fund with inflation swaps outperforming interest rates in Q1. The catalyst for that change was a slowing trend down in US headline inflation. We anticipate the next change will be a similar slowing in the UK in the Autumn, directing the fund to add UK inflation at the expense of interest rate exposure.

Outlook: The case for and against elevated inflation

Several factors suggest that consumer price inflation may remain elevated in the near term. Persistent supply chain bottlenecks remain a key concern. The Red Sea disruptions, Baltimore Bridge disaster, and reduced Panama Canal capacity necessitate costly rerouting, adding to input costs. Furthermore, crude oil prices have increased 10% year-over-year and seem poised for further growth due to constrained OPEC supply and reduced Russian output of refined oil products stemming from the Ukraine conflict.

Rising labour costs are another risk to inflation. In many nations, tight labor markets and central banks' delayed responses to pandemic-driven inflation - based on assumptions of transitory supply-side drivers - contribute to wage-price pressures. The prospect of Donald Trump winning the November Presidential election and increasing tariffs is another potential source of risk for prices of traded goods within inflation baskets.

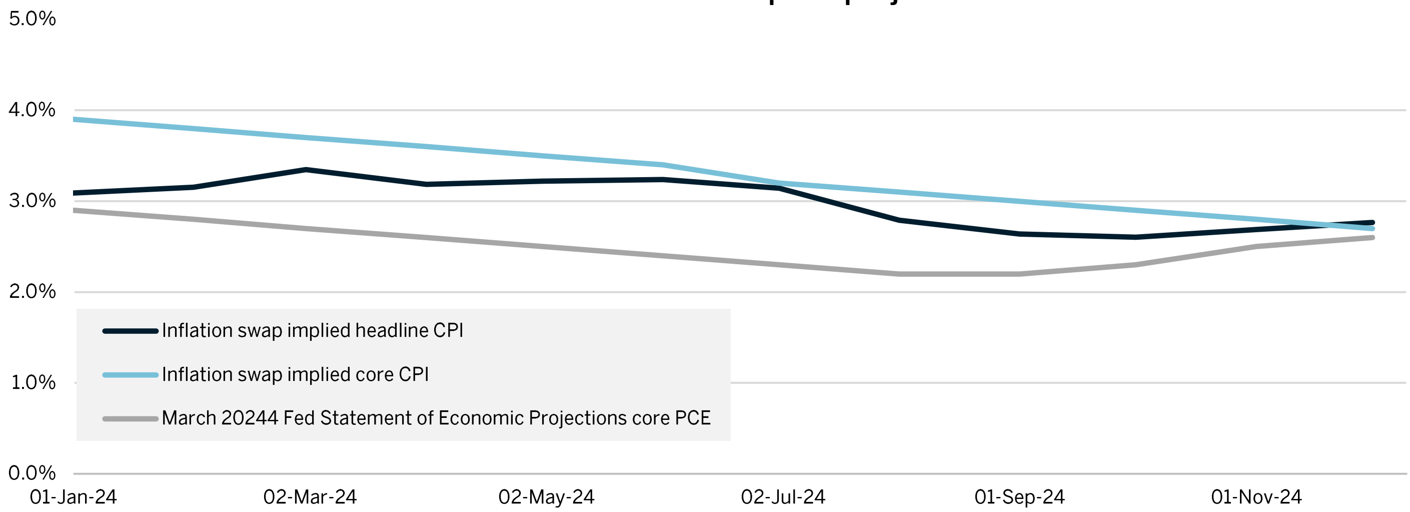
However, countervailing forces exist. Goods deflation, partially driven by the resolution of earlier supply chain issues and easing energy prices (specifically natural gas), may continue to ease inflationary pressures. While the US and UK housing markets currently demonstrate resilience, house prices and rents may yet exert downward pressure on inflation in 2024.

The balance of these factors creates uncertainty around the near-term inflation trajectory. Central banks will need to remain vigilant, yet there are signs from policymakers in both the US and UK that higher near-term inflation will be tolerated as long as the long-term trend remains contained.

What is the inflation swap market telling us?

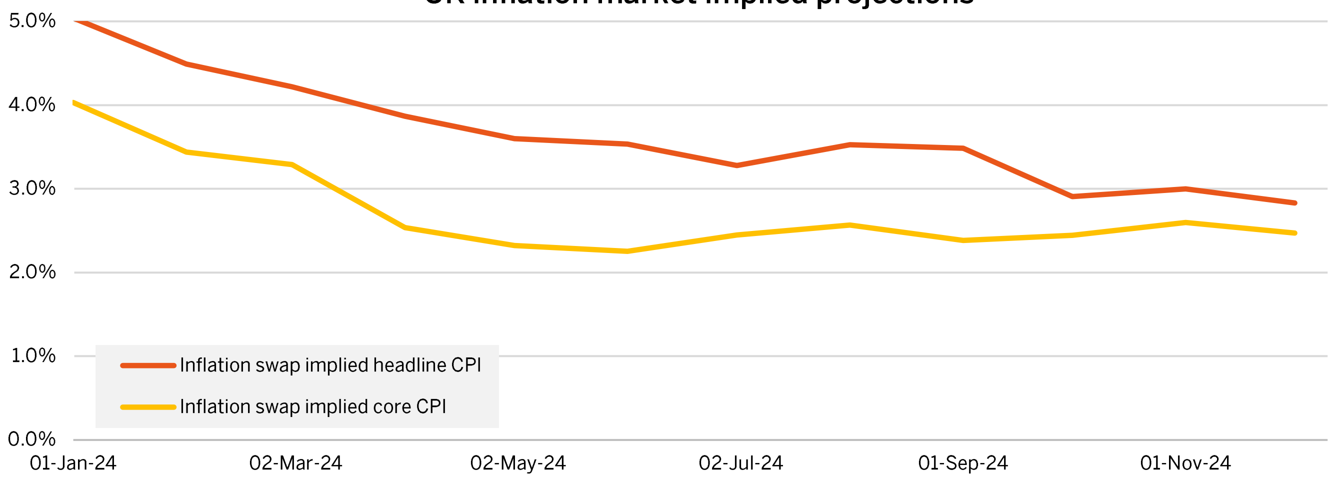
The next 12 monthly "fixings" are actively traded in the US inflation swap market. The chart below plots this inflation swap market's view of the path of future headline inflation. We have also shown the corresponding path for core CPI inflation and the recent March 2024 Federal Reserve Summary of Economic Projections path for core PCE inflation. Expectations are that US inflation will miss the target in 2024, but likely remain tolerable for policymakers (and voters, this being an election year).

US inflation market implied projections



In a similar manner, we can use the UK inflation swaps market to analyse the market's view of inflation in 2024. The UK market is less active than the US market, but there is still enough activity and price discovery in swaps indexed to RPI to apply our Atlantic House model to infer the likely path of UK headline and core CPI in the plot below. Here core inflation is also expected to stay above the Bank of England's 2% target in 2024, even if base effects pull it close to target in the next few months.

UK inflation market implied projections



Source: Bloomberg, Atlantic House Investments, data from 01/01/2024 to 01/12/2024.

Implications for the fund's signals and hence positioning

Using the above projected inflation figures we can infer when there will be changes to the *inflation trend signal* (based on the 6-month change in headline inflation) and the *inflation target signal* (based on the distance to a 2% inflation target):

Market	Signal	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
US	Inflation trend	1	1	1	1	1	1	1	1	1	1	1	1
US	Inflation target	0	0	0	0	0	0	0	0	0	1	1	1
UK	Inflation trend	2	2	2	2	2	2	2	1	1	1	1	1
UK	Inflation target	0	0	0	0	0	0	0	0	0	1	1	1

We conclude that the fund's exposure to US inflation is only likely to reduce once core inflation reaches within 1% of the target level. Then the rules behind the inflation target signal will direct the strategy to increase exposure to fixed income from 1005 to 133% and reduce exposure to inflation swaps to from 50% to 33%.

The funds exposure to UK inflation will most likely reduce in Q3 as the inflation trend flattens out, before restoring positions to the current levels a few months later as core inflation comes to within 1% of target.

In both the US and UK markets, the third signal (inflation vs rates) cannot be directly inferred from derivatives markets, although it is some way from a change point.

Key Risks

The price of shares and income from them can go down as well as up and past performance is not a guide to future performance. Investors may not get back the full amount originally invested. The level and basis of tax is subject to change and will depend on individual circumstances. There is no guarantee that the Fund will achieve its objective.

A comprehensive list of risk factors is detailed in the Risk Factors Section of the Prospectus and the Supplement of the Fundand in the relevant key investor information document (KIID). A copy of the English version of the Supplement, the Prospectus, and any other offering document and the KIID can be viewed at www.atlantichousegroup.com and www.geminicapital.ie. A summary of investor rights associated with an investment in the Fund is available in English at www.gemincapital.ie.

The Fund is entitled to use derivative instruments for investment purposes and for efficient portfolio management and/ or toprotect against exchange risks. Derivatives may not achieve their intended purpose. Their prices may move up or down significantly over relatively short periods of time which may result in losses greater than the amount paid. This could adversely impact the value of the Fund. The Fund may enter into various financial contracts (derivatives) with another party. Where the Fund uses futures or forward foreign currency contracts (derivatives), it may become exposed to certain investment risks including leverage, market, mismatching of exposure and/or counterparty risk, liquidity, interest rate, credit and management risks and the risk of improper valuation. Any movement in the price of these investments can have a significant impact on the value of the Fund and the Fund could lose more than the amount invested.

The Fund invests in government bonds. All bonds will be investment grade (i.e. at or above S&P rating BBB- or deemed equivalent). If any of the bonds the Fund owns suffer credit events the performance of the Fund could be adversely affected

In certain market conditions some assets in the Fund may become less liquid than at other times so selling at their true value and in a timely manner could become more difficult. Other risks the Fund is exposed to include but are not limited to are possible changes in interest rates, changing expectations of future market volatility. Future legal or regulatory change could have a significant effect on the Fund.

Important Information

Source for all data is Atlantic House Investments as of 31/03/2024 unless stated otherwise.

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