Atlantic House Uncorrelated Strategies Fund

QUARTERLY UPDATE

Q4 2023

Fund Overview

The Atlantic House Uncorrelated Strategies Fund aims to deliver positive returns across a wide range of market conditions, while protecting the portfolio from significant market downturns. The fund is designed to have low correlations to both traditional and alternative asset classes.

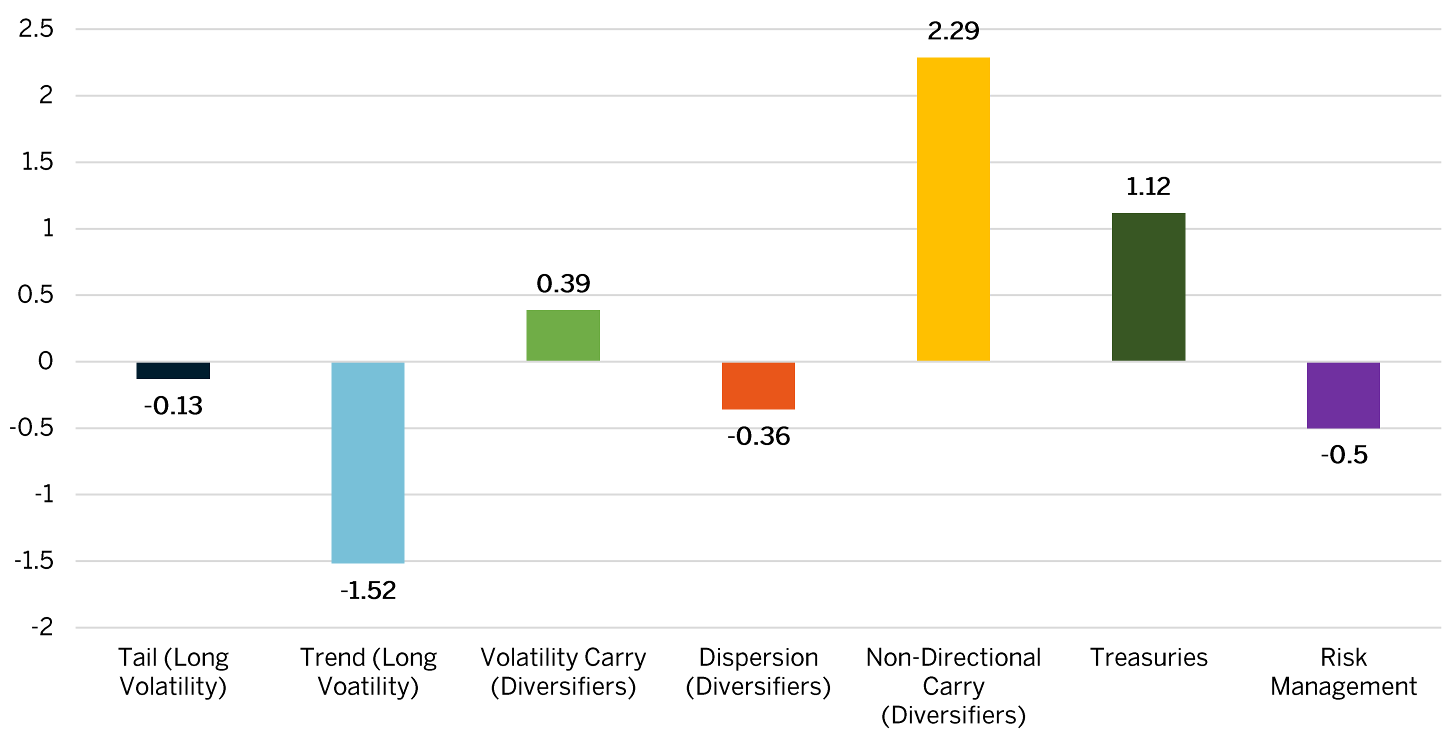
Quarterly Commentary

The final quarter of 2023 saved the year for many multi asset investors. With inflation lower than expected, sidelined cash rushed into both bonds and stocks, leaving stocks up more than 20% on the year (US Equities) and bonds just in positive territory on a total return basis over the course of the year. In volatility markets, investors became more comfortable selling volatility in both single stocks and indices as risk aversion retreated. The supply of volatility (investors selling for yield) picked up markedly, especially in Europe, where structured product sales set records for the year as many knockout products matured with the rally. This trend wasn't as pronounced in Asia, where the underperformance of Chinese stocks left many investors waiting for products to knock out before reloading on new ones.

Bond markets continued to experience elevated volatility through Q4 with downside surprises in US inflation sparking one of the largest rallies in fixed income since 2000. Forward looking volatility in bond markets remains elevated. Although investors have focussed their attention on the speed and scale of interest rate cuts over the next year, the uncertainty around those assumptions remains high and interest rate volatility remains one of the most stretched indicators in volatility markets. This uncertainty extends to FX volatility where the base rates set by central banks have an outsized impact on FX levels, particularly in those currencies which are popular with investors seeking 'carry', namely the Japanese Yen, Swiss Franc and Australian Dollar.

As investors look forward to the coming year, the focus is on 'when' and 'how much' central banks will cut interest rates. Almost 7 cuts are priced into USD interest rates over the coming year, which seems high on a historical basis. The uncertainty around this stands in contrast to the seemingly low level of volatility implied by indicators such as the VIX which closed the year at 12.5. The VIX may well be able to maintain such a low level if realised volatility remains subdued. In December, the realised volatility of the market was 8, reflecting a 4-point spread between implied and realised volatility. This serves as a reminder to investors that, although volatility may appear inexpensive, it is still costly to hold even on a medium-term basis.

Contribution of the sleeves within the fund in Q4 2023



Past performance does not predict future returns. Source: Atlantic House Investments as at 29-12-23

Commentary – Diversifier Strategies

Tail (-0.13%)

October presented a challenging landscape for stock markets, marking the third straight month of declines. This downturn was primarily fuelled by escalating bond yields, which surged amidst intensifying geopolitical unrest and the release of economic data supporting a 'higher for longer' environment. Despite these conditions, realised equity volatility remained subdued, not reaching the threshold necessary to activate our tail protection strategies. With rates already at a 22-year high, Fed Chair Jerome Powell indicated that policymakers had not ruled out further tightening if required. The U.S. 10-year yield, which leapt from around 4.6% to 5% by mid-October, before eventually settling around 4.9% by month's end. Our long rates volatility strategy was able to capture some of that volatility, helping to mitigate some of the losses incurred the equity strategy.

A pivotal decision in mid-October involved the removal of the long interest rate volatility strategy from the fund. This decision was based on two key reasons. First, the implied volatility had reached historically high levels, making the strategy costlier to maintain and posing a risk of disproportionate downside returns. Second, there was a shift in the relationship between interest rates and volatility; contrary to the previous trend where rising interest rates paired with falling volatility, we observed a simultaneous rise and fall in both. This effectively shifted the strategy to be short bonds which overlapped with the short bond exposure from the trend sleeve. The removal of this strategy in mid-October proved beneficial, saving the strategy approximately 70 basis points from the November rates reversal.

Trend (-1.52%)

The final quarter proved particularly tough for the trend-focused segment of our portfolio, as well as for the broader trend-following community. This difficulty was especially pronounced in November, a period marked by a significant shift in interest rate expectations. Having seen a gradual uptick in rates since April, the sleeve entered November with short bond exposure. However, the bond markets experienced a surge of enthusiasm during the month, spurred by anticipations of earlier-than-expected central bank rate cuts, a reaction to continued signs of easing inflation. This optimism triggered the most significant one-month rally in bond markets since 2002. Given our strategy's short position in rates, the fact that the trend sleeve only saw a 1.5% decline for the month was a somewhat reassuring outcome amidst such a large market move. This performance, under the circumstances, was a testament to the resilience and robustness of our trend-following approach during a period of unexpected market shifts.

Commentary – Diversifier Strategies

Volatility Carry (0.39%)

October was challenging for the European credit volatility carry strategy due to escalating volatility in the credit markets. Performance rebounded in November driven by the strategy having sold implied volatility at elevated levels in October, which then fell through November as overall risk sentiment in the markets improved. For the equity vol carry strategy; although markets reversed course across October and November, 1 week realised volatility generally stayed below implied helping the US strategy to earn its carry over the quarter.

Dispersion (-0.36%)

October saw encouraging returns, with higher dispersion that expected as Q3 earnings releases threw out some surprises with realised single stock volatility landing above implied. These returns were given back in November as risk sentiment improved and market participants increasingly engaged in selling single stock volatility, particularly through call overwriting. This shift led to a decrease in the implied volatility of individual stocks. For reference, the dispersion sleeve is long single stock volatility and short index volatility.

Non-Directional Carry (2.29%)

The standout performer of the quarter was the strategy capitalising on the roll down of gas and sugar futures curves. Gas futures tend to provide relatively high carry during the winter months, due to steeper front-end curve driven by higher volatility. The credit curve carry strategy was also a positive contributor in the quarter. Although there was some flattening of the Credit Default Swap (CDS) curve in October, as the market sought near-term credit protection, the resultant losses were effectively counterbalanced by the carry gains. November and December carry added 0.25% and 0.21% to performance, respectively.

Key Risks

The price of shares and income from them can go down as well as up and past performance does not predict future returns. Investors may not get back the full amount 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.

This is a marketing communication. The Fund is aimed at advised & discretionary market investors over the long term who have the capacity to tolerate a loss of the entire capital invested or the initial amount.

A final investment decision should not be contemplated until the risks are fully considered. A comprehensive list of risk factors is detailed in the Risk Factors Section of the Prospectus and the Supplement of the Fund and 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 to protect 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 and corporate bonds. All bonds will be rated as investment grade on purchase (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, changing expectations of equity market correlation and changing dividend expectations. 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 29/12/2023, unless stated otherwise.

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