STENHAM
ASSET MANAGEMENT

# Q4 2023 Investment Letter

with Kevin Arenson & Tim Beck

## Market Commentary

| Equities | Q4 | 2023 |
|---|---|---|
| MSCI World (USD) | 11.1% | 21.8% |
| MSCI EM (USD) | 7.4% | 7.0% |
| S&P 500 | 11.2% | 24.2% |
| STOXX Europe 600 (USD) | 11.3% | 16.4% |

| Fixed Income | Q4 | 2023 |
|---|---|---|
| FTSE Global Bonds | 8.1% | 5.2% |
| Investment Grade | 9.9% | 9.4% |
| High Yield | 7.2% | 12.9% |
| Bloomberg Global Agg Bond | 8.1% | 5.7% |

| Currencies | Q4 | 2023 |
|---|---|---|
| USD (DXY) | -4.6% | -2.1% |
| EUR (vs USD) | 4.6% | 3.3% |
| JPY (vs USD) | 6.1% | -7.0% |
| GBP (vs USD) | 4.6% | 5.5% |

| Commodities | Q4 | 2023 |
|---|---|---|
| Gold | 11.5% | 13.3% |
| Oil (WTI) | -21.1% | -10.7% |
| Natural Gas | -14.2% | -43.8% |
| Bloomberg Commodity | -5.9% | -12.6% |

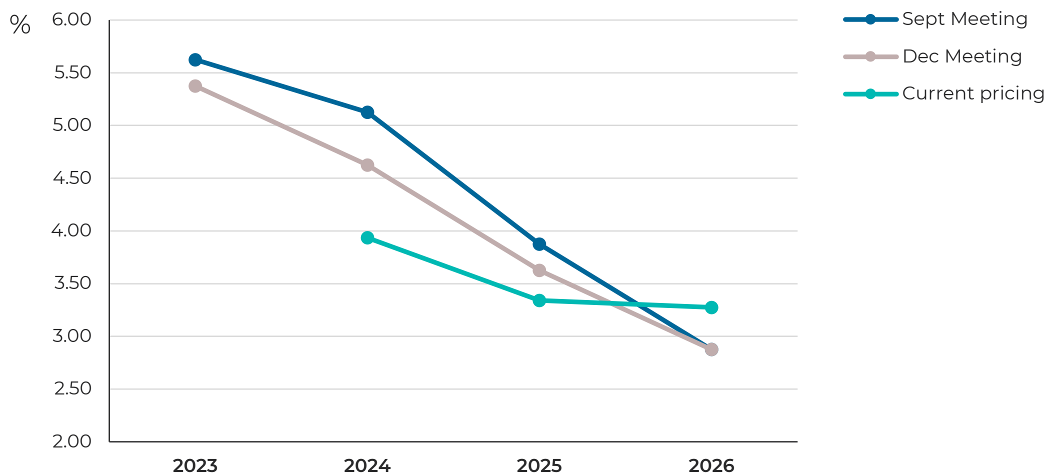
*Source: Bloomberg as of 31 Dec 2023*

Q4 2023 was a very strong quarter for risk assets. Equities rose over 10%, bringing YTD returns to over 20% for the MSCI World, while fixed income markets rallied significantly, leading to a positive year for both Investment Grade indices and the Bloomberg Global Aggregate Bond after they entered the quarter with further losses following the heavy drawdowns seen in 2022.

Entering Q4, the environment felt a lot less sanguine. Not only had there been a sharp rise in long-term interest rates, but there was also the potential geopolitical crisis following the Hamas attack on Israel in early October. The yield on the 10-Year Treasury rose 90bps in just six weeks, hitting 5% for the first time since 2007. This sentiment changed rapidly. Economic data showed that US consumer spending, inflation and labour markets were cooling. This was followed by dovish commentary from Fed Chair Powell during the November Federal Open Market Committee (FOMC) meeting, which created the expectation of rate cuts during 2024. This was compounded by a full Fed pivot in the December meeting, which showed that the median expectation of members was for three rate cuts during 2024.

In the last 2 months of the year, High Yield and Investment Grade indices returned 8% and 9% respectively. These contributed to a very strong easing on monetary conditions, the level of which rivalled that seen in 2021. Even following the Fed pivot in December, market expectations are for more rate cuts than the Fed has indicated; as of 25 January, a Fed funds rate of 3.95% was being priced in relative to the 4.75% median of the Fed's dot plots.

**FOMC Median Dots[1]**




Economic growth has been reasonable, at least in the US, and exceeded expectations when entering 2023. Q4 growth came in at 3.3% (annualised), bringing full year growth to 3.1%. It has been much less strong in Europe, where the region is teetering on recession, and also China, where concerns over the real estate sector continues to weigh on the economy and markets. There are some signs of a slowing domestic economy in the US. This is to be expected, and indeed required, to bring down inflation, but the question is whether the trend continues or somewhat flatlines from here. Rising levels of stress at the consumer level come through in greater credit card and auto loan delinquencies; these have increased, but to more or less pre-Covid levels. Job openings have steadily declined during 2023. Manufacturing surveys (Dallas Fed -27.4) are also pointing towards a decline in output. Nonetheless, economic growth globally has exceeded expectations and PMIs[1] are above 50 in aggregate, albeit with geographical divergence.

**Manufacturing PMI**

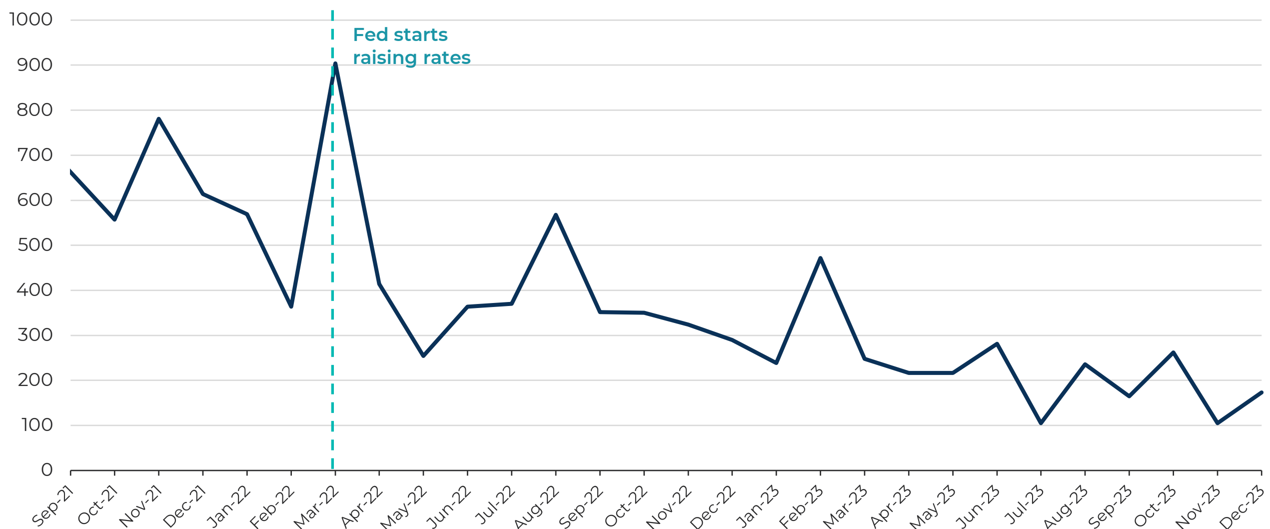
| Region | 2022 | | | | | | | | | 2023 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Global | 52.3 | 52.4 | 52.2 | 51.1 | 50.3 | 49.8 | 49.4 | 48.8 | 48.7 | 49.1 | 49.9 | 49.6 | 49.6 | 49.5 | 48.7 | 48.6 | 49.0 | 49.2 | 48.8 | 49.3 | 49.0 |
| Developed | 56.3 | 55.0 | 52.5 | 51.3 | 50.2 | 50.1 | 48.8 | 47.8 | 47.3 | 48.0 | 48.1 | 48.4 | 48.5 | 47.6 | 46.3 | 47.1 | 46.8 | 47.4 | 47.5 | 47.7 | 47.0 |
| Emerging | 48.1 | 49.5 | 51.7 | 50.8 | 50.2 | 49.4 | 49.8 | 49.7 | 49.8 | 49.9 | 51.6 | 50.7 | 50.5 | 51.4 | 51.1 | 50.2 | 51.4 | 50.9 | 50.1 | 50.9 | 50.9 |
| US | 59.2 | 57.0 | 52.7 | 52.2 | 51.5 | 52 | 50.4 | 47.7 | 46.2 | 46.9 | 47.3 | 49.2 | 50.2 | 48.4 | 46.3 | 49 | 47.9 | 49.8 | 50 | 49.4 | 47.9 |
| Japan | 53.5 | 53.3 | 52.7 | 52.1 | 51.5 | 50.8 | 50.7 | 49 | 48.9 | 48.9 | 47.7 | 49.2 | 49.5 | 50.6 | 49.8 | 49.6 | 49.6 | 48.5 | 48.7 | 48.3 | 47.9 |
| UK | 55.8 | 54.6 | 52.8 | 52.1 | 47.3 | 48.4 | 46.2 | 46.5 | 45.3 | 47 | 49.3 | 47.9 | 47.8 | 47.1 | 46.5 | 45.3 | 43 | 44.3 | 44.8 | 47.2 | 46.2 |
| Eurozone | 55.5 | 54.6 | 52.1 | 49.8 | 49.6 | 48.4 | 46.4 | 47.1 | 47.8 | 48.8 | 48.5 | 47.3 | 45.8 | 44.8 | 43.4 | 42.7 | 43.5 | 43.4 | 43.1 | 44.2 | 44.4 |

**Services PMI**

| Region | 2022 | | | | | | | | | 2023 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Global | 52.2 | 52.0 | 53.7 | 51.0 | 49.2 | 49.9 | 49.1 | 48.1 | 48.0 | 50.0 | 52.5 | 54.3 | 55.3 | 55.3 | 53.8 | 52.6 | 51.0 | 50.7 | 50.4 | 50.6 | 51.6 |
| Developed | 55.8 | 53.9 | 53.0 | 49.1 | 46.7 | 49.6 | 48.7 | 47.5 | 47.2 | 48.6 | 51.7 | 53.2 | 54.5 | 54.7 | 53.5 | 51.8 | 50.1 | 50.1 | 49.8 | 50.0 | 50.6 |
| Emerging | 43.7 | 47.2 | 55.5 | 55.4 | 54.9 | 50.6 | 49.9 | 49.3 | 50.0 | 53.1 | 54.5 | 56.7 | 57.2 | 56.7 | 54.6 | 54.5 | 53.1 | 52.0 | 51.8 | 52.2 | 53.8 |
| US | 55.6 | 53.4 | 52.7 | 47.3 | 43.7 | 49.3 | 47.8 | 46.2 | 44.7 | 46.8 | 50.6 | 52.6 | 53.6 | 54.9 | 54.4 | 52.3 | 50.5 | 50.1 | 50.6 | 50.8 | 51.4 |
| Japan | 50.7 | 52.6 | 54.0 | 50.3 | 49.5 | 52.2 | 53.2 | 50.3 | 51.1 | 52.3 | 54.0 | 55.0 | 55.4 | 55.9 | 54.0 | 53.8 | 54.3 | 53.8 | 51.6 | 50.8 | 51.5 |
| UK | 58.9 | 53.4 | 54.3 | 52.6 | 50.9 | 50.0 | 48.8 | 48.8 | 49.9 | 48.7 | 53.5 | 52.9 | 55.9 | 55.2 | 53.7 | 51.5 | 49.5 | 49.3 | 49.5 | 50.9 | 53.4 |
| Eurozone | 57.7 | 56.1 | 53.0 | 51.2 | 49.8 | 48.8 | 48.6 | 48.5 | 49.8 | 50.8 | 52.7 | 55.0 | 56.2 | 55.1 | 52.0 | 50.9 | 47.9 | 48.7 | 47.8 | 48.7 | 48.8 |

[1] *Source: Bloomberg.*

**Slowing job market risks a deceleration in US growth**[1]
Change in nonfarm payroll employment




Inflation has fallen across the board. It really is quite stark to look at the high single-digit levels it reached during 2022 and how globally it has fallen significantly.

**Headline inflation (% change YoY)**[2]

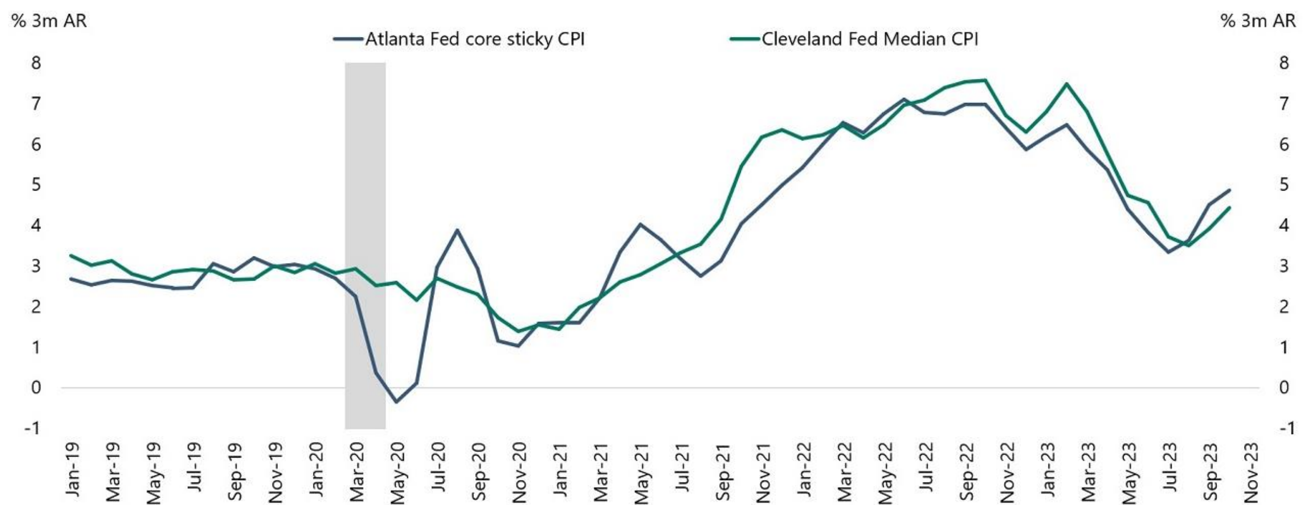
| | | 2021 | 2022 | | | | | | | | | | | | 2023 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov |
| Eurozone | Eurozone | 5.0 | 5.1 | 5.9 | 7.4 | 7.4 | 8.1 | 8.6 | 8.9 | 9.1 | 9.9 | 10.6 | 10.1 | 9.2 | 8.6 | 8.5 | 6.9 | 7.0 | 6.1 | 5.5 | 5.3 | 5.2 | 4.3 | 2.9 | 2.4 |
| | France | 3.4 | 3.3 | 4.2 | 5.1 | 5.4 | 5.8 | 6.5 | 6.8 | 6.6 | 6.2 | 7.1 | 7.1 | 6.7 | 7.0 | 7.3 | 6.7 | 6.9 | 6.0 | 5.3 | 5.1 | 5.7 | 5.7 | 4.5 | 3.9 |
| | Germany | 5.7 | 5.1 | 5.5 | 7.6 | 7.8 | 8.7 | 8.2 | 8.5 | 8.8 | 10.9 | 11.6 | 11.3 | 9.6 | 9.2 | 9.3 | 7.8 | 7.6 | 6.3 | 6.8 | 6.5 | 6.4 | 4.3 | 3.0 | 2.3 |
| | Italy | 4.2 | 5.1 | 6.2 | 6.8 | 6.3 | 7.3 | 8.5 | 8.4 | 9.1 | 9.4 | 12.6 | 12.6 | 12.3 | 10.7 | 9.8 | 8.1 | 8.6 | 8.0 | 6.7 | 6.3 | 5.5 | 5.6 | 1.8 | 0.6 |
| | Spain | 6.6 | 6.2 | 7.6 | 9.8 | 8.3 | 8.5 | 10.0 | 10.7 | 10.5 | 9.0 | 7.3 | 6.7 | 5.5 | 5.9 | 6.0 | 3.1 | 3.8 | 2.9 | 1.6 | 2.1 | 2.4 | 3.3 | 3.5 | 3.3 |
| | Greece | 4.4 | 5.5 | 6.3 | 8.0 | 9.1 | 10.5 | 11.6 | 11.3 | 11.2 | 12.1 | 9.5 | 8.8 | 7.6 | 7.3 | 6.5 | 5.4 | 4.5 | 4.1 | 2.8 | 3.5 | 3.5 | 2.4 | 3.8 | 2.9 |
| | Ireland | 5.7 | 5.0 | 5.7 | 6.9 | 7.3 | 8.3 | 9.6 | 9.6 | 9.0 | 8.6 | 9.4 | 9.0 | 8.2 | 7.5 | 8.1 | 7.0 | 6.3 | 5.4 | 4.8 | 4.6 | 4.9 | 5.0 | 3.6 | 2.5 |
| Developed | Sweden | 4.5 | 3.9 | 4.4 | 6.3 | 6.6 | 7.5 | 8.9 | 8.3 | 9.5 | 10.3 | 9.8 | 10.1 | 10.8 | 9.6 | 9.7 | 8.1 | 7.7 | 6.7 | 6.3 | 6.3 | 4.5 | 3.7 | 4.0 | 3.3 |
| | Switzerland | 1.3 | 1.4 | 1.9 | 2.2 | 2.3 | 2.7 | 3.2 | 3.3 | 3.3 | 3.2 | 2.9 | 2.9 | 2.7 | 3.2 | 3.2 | 2.7 | 2.6 | 2.2 | 1.8 | 2.1 | 1.9 | 2.0 | 2.0 | 1.6 |
| | UK | 5.4 | 5.5 | 6.2 | 7.0 | 9.0 | 9.1 | 9.4 | 10.1 | 9.9 | 10.1 | 11.1 | 10.7 | 10.5 | 10.1 | 10.4 | 10.1 | 8.7 | 8.7 | 7.9 | 6.8 | 6.7 | 6.7 | 4.6 | 3.9 |
| | US | 7.0 | 7.5 | 7.9 | 8.5 | 8.3 | 8.6 | 9.1 | 8.5 | 8.3 | 8.2 | 7.7 | 7.1 | 6.5 | 6.4 | 6.0 | 5.0 | 4.9 | 4.0 | 3.0 | 3.2 | 3.7 | 3.7 | 3.2 | 3.1 |
| | Japan | 0.8 | 0.5 | 0.9 | 1.2 | 2.5 | 2.5 | 2.4 | 2.6 | 3.0 | 3.0 | 3.7 | 3.8 | 4.0 | 4.3 | 3.3 | 3.2 | 3.5 | 3.2 | 3.3 | 3.3 | 3.2 | 3.0 | 3.3 | 2.8 |
| Emerging | China | 1.5 | 0.9 | 0.9 | 1.5 | 2.1 | 2.1 | 2.5 | 2.7 | 2.5 | 2.8 | 2.1 | 1.6 | 1.8 | 2.1 | 1.0 | 0.7 | 0.1 | 0.2 | 0.0 | -0.3 | 0.1 | 0.0 | -0.2 | -0.5 |
| | Indonesia | 1.9 | 2.2 | 2.1 | 2.6 | 3.5 | 3.6 | 4.3 | 4.9 | 4.7 | 6.0 | 5.7 | 5.4 | 5.5 | 5.3 | 5.5 | 5.0 | 4.3 | 4.0 | 3.5 | 3.1 | 3.3 | 2.3 | 2.6 | 2.9 |
| | Korea | 3.7 | 3.6 | 3.7 | 4.1 | 4.8 | 5.4 | 6.0 | 6.3 | 5.7 | 5.6 | 5.7 | 5.0 | 5.0 | 5.2 | 4.8 | 4.2 | 3.7 | 3.3 | 2.7 | 2.3 | 3.4 | 3.7 | 3.8 | 3.3 |
| | Taiwan | 2.6 | 2.8 | 2.3 | 3.3 | 3.4 | 3.4 | 3.6 | 3.4 | 2.7 | 2.8 | 2.7 | 2.4 | 2.7 | 3.1 | 2.4 | 2.4 | 2.3 | 2.0 | 1.8 | 1.9 | 2.5 | 2.9 | 3.0 | 2.9 |
| | India | 5.7 | 6.0 | 6.1 | 7.0 | 7.8 | 7.0 | 7.0 | 6.7 | 7.0 | 7.4 | 6.8 | 5.9 | 5.7 | 6.5 | 6.4 | 5.7 | 4.7 | 4.3 | 4.9 | 7.4 | 6.8 | 5.0 | 4.9 | 5.6 |
| | Brazil | 10.1 | 10.4 | 10.5 | 11.3 | 12.1 | 11.7 | 11.9 | 10.1 | 8.7 | 7.2 | 6.5 | 5.9 | 5.8 | 5.8 | 5.6 | 4.7 | 4.2 | 3.9 | 3.2 | 4.0 | 4.6 | 5.2 | 4.8 | 4.7 |
| | Mexico | 7.4 | 7.1 | 7.3 | 7.5 | 7.7 | 7.7 | 8.0 | 8.2 | 8.7 | 8.7 | 8.4 | 7.8 | 7.8 | 7.9 | 7.6 | 6.8 | 6.3 | 5.8 | 5.1 | 4.8 | 4.6 | 4.5 | 4.3 | 4.3 |
| | South Africa | 5.9 | 5.7 | 5.7 | 5.9 | 5.9 | 6.5 | 7.4 | 7.8 | 7.6 | 7.5 | 7.6 | 7.4 | 7.2 | 6.9 | 7.0 | 7.1 | 6.8 | 6.3 | 5.4 | 4.7 | 4.8 | 5.4 | 5.9 | 5.5 |

True, it has not reached the 2% target of developed markets' central banks, and it may be hard to achieve that, but inflation certainly has fallen to more comfortable levels. It is easy to see how inflation may reassert

[1] *Source: Bloomberg as of 31 Dec 2023.*
[2] *Source: JPMorgan as of 30 Nov 2023.*

itself; it remains to be seen how the strong easing in financial conditions in Q4 translates into consumer spending, etc., and geopolitical risks could easily overflow into economic disruption, as is evident in the Red Sea shipping disruption currently. Core or sticky prices do also remain well above flexible prices and have shown a modest uptick in recent months.

**Key measures of inflation have started to reaccelerate in recent months**[1]

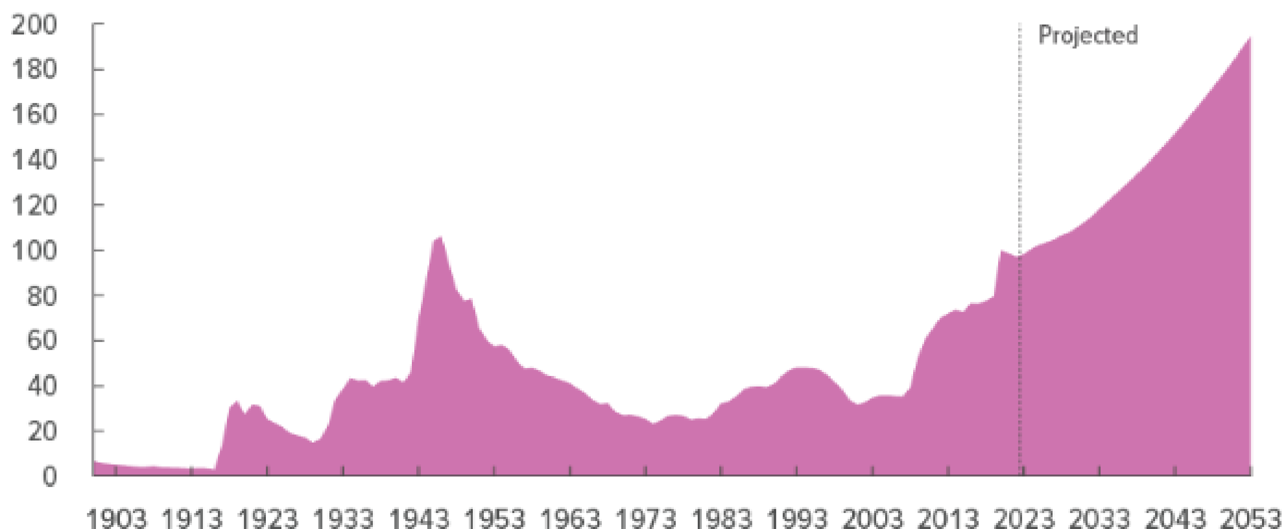



As far as the lagged impacts of the current increase in interest rates, we are seeing some trends across both corporate and consumer measures. Corporate default rates have risen, though remain at relatively low levels. We expect this to continue to rise; companies which issued debt in a zero interest rate environment and have to refinance, if not at a spread above 5% but above 4%, will still see a significant increase in debt service costs. Some will need to restructure their balance sheets, many will need to address operational structures and expenditures. The pickup in loan delinquencies has reached levels seen pre-Covid. The key question is whether they flatline from here. The current increase has been driven by the sub-prime sector and the lowest income groups. With the strong labour market, the rest of consumers seem in relatively good health, many of whom locked in low interest rates on their mortgages. Recent data from Apollo shows 89% of consumer debt is fixed rate (mortgages, student and auto loans), which will lead to the impact of interest rate rises taking time and also lessening.

Debt remains high at both governments and corporates. Focus on this has declined as interest rate pressure fell but it does still remain. While it may become less of an immediate issue, the longer-term issues will persist. The US government continues to operate with huge deficits at times of record low employment. Corporate debt leverage is high and the vulnerabilities remain to any economic downturn and/or a renewed rise in interest rates.

[1] *Source: FRB of Atlanta, FRB of Cleveland, Haver Analytics, Apollo Chief Economist as of 8 Dec 2023.*

**Federal debt held by the public, 1900 – 2053**[1]
% of GDP




The concerns and risks which surround the market remain the same as at the start of 2023; the risk of inflation remaining stubborn and requiring interest rates to remain higher for longer, the lagged impact of the current rise in rates on the economy, both extenuated by high sovereign and corporate leverage levels.

We feel the outlook is uncertain and risks still remain. Economic growth has been sustained while, at the same time, inflation has fallen. It is true that this is not completed; sticky or core CPI continues to stay above 2% and it remains an open question as to whether interest rates will need to remain higher for longer to achieve the 2% target. The Fed has a difficult role; for the rally in risk assets to be sustained, they will need to balance monetary policy carefully, for easing conditions could lead to inflation reaccelerating and, alternatively, tightening too much could provoke a recession.

## Strategy Allocations

Our flagship commingled Fund of Funds have long track records. Stenham Trading, our Macro-focused Fund of Funds, celebrated its 30th anniversary in November 2023. Stenham Universal, our Multi-strategy Fund of Funds, has a 32-year track record. Both portfolios have navigated many market cycles and different economic environments. They have generated strong risk-adjusted returns over time and this has been driven by protecting capital well in periods of stress, taking advantage of dislocations following those periods, but also, and perhaps most importantly, generating returns in more benign periods, all with low sensitivity to either equity or bond markets. We believe this approach lends itself well to the current environment, where there is a fixation on whether the economy will experience a soft or hard landing. This is an over simplification of the path of the economy and, more relevant for us, defining the investment opportunities as binary.

[1] *Source: Congressional Budget Office (www.cbo.gov).*

We have limited equity and fixed income beta across our core portfolios, and this will continue to be the case. We are focused on strategies which we believe can deliver strong risk-adjusted returns in different environments and this is especially the case in a higher interest rate environment. We increased merger arbitrage during 2023 and see this as a strategy which both has a higher expected return (as spreads are based off the risk-free rate) and should work well in a strong economy/markets as more deals are likely to be announced. Similarly, fixed income relative value spreads have a greater expected return with higher interest rates. Credit long/short remains attractive despite tight spreads; companies need to refinance and many will continue to struggle to do so. We continue to have sizeable allocations to macro strategies with managers able to take advantage of a variety of different environments.

## Discretionary and Systematic Global Macro

Discretionary macro, relative value and quantitative strategies were profitable for the quarter with commodities and tail-risk protection managers negative. Discretionary macro, which remains the largest allocation, drove gains. The best performing managers were those who had tilted their portfolio to a long fixed income bias, with a view that inflation had peaked and central banks were likely to embark on a rate cutting cycle imminently. Our emerging markets-focused macro manager had a very strong quarter with gains from Latin America sovereign credit and local rates. One of our thematic discretionary macro funds benefitted from curve steepening trades and a long position in gold. Our Asia-focused macro manager, who is one of our largest allocations, was also profitable with gains from longs in Asian rates and shorts in Japan offset by some losses in the US.

Relative value strategies rounded off a good year with fixed income arbitrage driving gains. Increased issuance and supply of bonds presents a tailwind to this strategy. We are monitoring potential regulatory changes with regard to financing of these strategies, although at this moment there has been no impact despite much noise from the SEC. Changes, if any, will take time to come into effect. As we enter the new year, US and Japanese bond arbitrage appears to offer the best opportunities.

Quantitative strategies were profitable for the quarter, but had a difficult December. There were some signs of de-grossing as heavily shorted low-quality stocks outperformed. We have seen much of this revert back in January.

Commodity managers rounded out a difficult year with our top performer, a European-focused natural gas specialist, while our systematic commodity managers struggled with choppy markets and lack of trends.

Tail-risk hedging was a detractor as volatility across assets declined significantly and credit spreads tightened particularly in December. We continue to see asymmetry in these positions especially if the US soft landing narrative was to be challenged in the coming months.

## Equity Long/Short

In aggregate, our allocation to equity long/short funds made a meaningful positive contribution to overall performance in Q4.

Managers were helped by equity markets moving higher in response to solidifying market expectations that we have progressed past the rate-hiking/quantitative-tightening part of the cycle and are now heading towards policy easing.

Healthcare/biotech and utilities managers, in particular, benefitted from the reversal in policy expectations. These sectors are ones where Stenham has significant equity long/short exposure. Both sectors had been struggling earlier in 2023 with rate hike expectations impacting rate sensitive and longer-duration businesses. In Q4 though, this underperformance snapped back quite dramatically. The biotech sector was also helped by a spate of M&A transactions, which helped further validate the fundamental appeal of the sector.

As we move into 2024, we have not made many changes to our equity long/short allocations. Exposures continue to be concentrated in multi-manager platforms, which have proven themselves to be capable of navigating any range of macro environments, as well as in sector specialists in areas where alpha generation opportunities are high and sector fundamentals seem attractive.

## Event Driven

Our event driven allocation performed well. Our focus is on hard-catalyst merger arbitrage managers. Merger activity was at its lowest for 10 years; despite this, one of our managers generated close to 20%, and another mid/high single-digit returns, which is consistent with our long-term target. While merger activity was low, there was a steady stream and, importantly, many strong trading activities presented themselves. Amgen's acquisition of Horizon Therapeutics was initially blocked, but then cleared by US regulators. Likewise, Microsoft's acquisition of Activision was initially blocked by the UK's Competition & Markets Authority, but then cleared. Linked by many to the path of the Horizon acquisition, the Pfizer and Seagen merger was completed in Q4. These opportunities led to strong returns for one of our managers. It also, in some ways, signified a change in the regulatory environment from one which was very litigious and looking to block many acquisitions to one which is potentially more selective. We would also point out what we see as a less competitive environment. Many of the larger merger exposures used to be within large multi-strategy hedge funds, which have now significantly reduced in size. The large platforms still hold exposures, but their ability to deploy risk in widening transactions is limited.

## Credit

Our credit allocation generated strong performance. Early in 2023, key drivers of performance included companies looking to refinance debt, which was trading at a low-dollar value due to the low coupon attached to it and having fallen in value as interest rates rose. The managers also operated with a moderate long exposure, certainly for the first half of the year. We feel that active trading around refinancing and new issuance will continue to present strong opportunities certainly during 2024 and most likely beyond. Corporate defaults have risen, but are just at more normalised levels. Absent a major economic event, we expect defaults and restructurings to pick up and remain at a moderate level for a number of years as companies look to address their leverage and the ability to service debt at higher interest rates. This will present opportunities for both long and short exposures. Our managers reduced net exposure as spreads tightened during Q4, though still generated positive performance.

# Summary

We are optimistic on the opportunity set and return potential of our portfolios. We continue to take limited beta to broad markets and believe the return potential of high single digits with limited downside is very attractive given the risks which we see.

Thank you for your ongoing confidence in Stenham. Please contact us if you would like to hear more about our strategies or funds. Further information can also be found on our website.

**Kevin Arenson**
Chief Investment Officer

**Tim Beck**
Senior Investment Executive

DISCLAIMER

This document relates to the services of the Stenham Asset Management Group and certain both regulated and unregulated collective investment schemes (the "**Funds**") as defined in the Financial Services and Markets Act 2000 ("**FSMA**"). It has been approved by Stenham Advisors Plc. The Funds have not been authorised or otherwise approved by the Financial Conduct Authority. This communication is directed only at, and the units to which this communication relates are available only to, such persons who satisfy the criteria for one or more of the following : (a) an investment professional, being a person having professional experience of participating in unregulated schemes within the meaning of article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) Order 2001, as amended (the "**CIS Promotion Order**"); (b) a certified high net worth individual, being an individual who has signed, within the preceding 12 months, a statement complying with Part I of the Schedule of the CIS Promotion Order; (c) a high net worth company, unincorporated association etc, being an entity to which article 22(2) of the CIS Promotion Order applies; (d) a certified sophisticated investor, being a person: (i) who has a current written certificate signed by an authorised person stating that the person is sufficiently knowledgeable to understand the risks associated with participating in unregulated schemes; and (ii) who has signed, within the preceding 12 months, a statement in the terms set out at article 23(1) of the CIS Promotion Order; (e) an association of high net worth or sophisticated investors within the meaning of article 24 of the CIS Promotion Order; and (f) any other person to whom it may otherwise be lawfully communicated, including, where the communicator is an authorised person, those persons listed in rule 4.12 of the Conduct of Business Sourcebook of the FCA Handbook ("**COBS**"); (collectively, "**Exempt Recipients**"). It is not intended for Retail clients.

This communication is exempt from the scheme promotion restriction in section 238 of FSMA on the communication of invitations or inducements to participate in unregulated schemes on the grounds that it is made to Exempt Recipients. It is a condition of your receiving this communication that you are, and you warrant to Stenham Advisors Plc that you are an Exempt Recipient. Persons who do not satisfy the criteria to be an Exempt Recipient should not rely on this communication nor take any action upon it, but should return this communication immediately to Stenham Advisors Plc at 180 Great Portland Street, London W1W 5QZ.

This communication is confidential and intended solely for the person to whom it is delivered. No part of this communication may be reproduced in any form or by any means or re-distributed without the prior written consent of Stenham Advisors Plc. This communication should not be construed as an offer to sell any investment or service. This communication does not constitute the solicitation of an offer to purchase or subscribe for any investment or service in any jurisdiction where, or from any person in respect of whom, such a solicitation of an offer is unlawful. This communication does not constitute investment advice or a personal recommendation. If you are in doubt about the units to which this communication relates, you should consult an authorised person specialising in advising on participation in unregulated schemes. The information in this communication has been prepared in good faith, however, no representation or warranty, expressed or implied, is or will be made and no responsibility or liability is or will be accepted by Stenham Advisors Plc or its officers, employees or agents in relation to the accuracy, completeness or fitness for any purpose of this communication. Past performance is not a reliable indicator of future results. The information stated, opinions expressed and estimates given are subject to change without prior notice.

The services described are provided by Stenham Advisors Plc or by its subsidiaries and/or affiliates in accordance with appropriate local legislation and regulation. Certain products and services may not be available in all locations or to all Stenham Advisors Plc clients.

Stenham Advisors Plc is authorised and regulated by the Financial Conduct Authority.