

Q4 2024 Investment Letter

with Kevin Arenson, Akshay Krishnan & Tim Beck

Market Commentary

Equities	Q4	2024	Fixed Income	Q4	2024	Currencies	Q4	2024	Commodities	Q4	2024
MSCI World (USD)	-0.4%	17.0%	FTSE Global Bonds	-5.4%	-2.9%	USD (DXY)	7.6%	7.1%	Gold	-0.6%	27.0%
MSCI EM (USD)	-8.1%	5.1%	Investment Grade	-4.0%	1.2%	EUR (vs USD)	-7.2%	-6.5%	Oil (WTI)	5.2%	0.1%
S&P 500	2.1%	23.3%	High Yield	0.2%	7.9%	JPY (vs USD)	-9.0%	-10.5%	Natural Gas	24.3%	44.5%
STOXX Europe 600 (USD)	-9.9%	-0.9%	Bloomberg Global Agg Bond	-5.1%	-1.7%	GBP (vs USD)	-6.6%	-1.9%	Bloomberg Commodity	-1.6%	0.1%

Source: Bloomberg as of 31 Dec 2024

Q4 2024 saw a divergence in performance between equities and fixed income. US equities continued their strong performance, with the S&P 500 returning 2.1% to bring 2024 performance to 23.3%, while bonds suffered due to rising yields. US equities continued to show resilience, delivering positive returns, driven by a strong US economy and strong corporate earnings with 75% of S&P 500 companies beating earnings expectations. Ex-US equities gave back some of their gains from earlier in the year, but still ended with respectable returns for the full year. European and EM equities were down, and in USD heavily so, primarily due to the strength of the USD during the quarter.

Bonds experienced a challenging period with rising yields leading to negative returns across most fixed income asset classes. This was driven by both a stronger economy and expectations of a less accommodative monetary policy. Corporate bonds showed more resilience than government bonds, with credit spreads tightening; investment grade bonds still ended the quarter with losses though high yield was flat. Overall credit spreads are very tight, at multi-year if not decade tight. Currencies saw strong outperformance of the USD, and whilst commodities were mixed, gold performed strongly for the year, acting as a safe haven and a store of value.

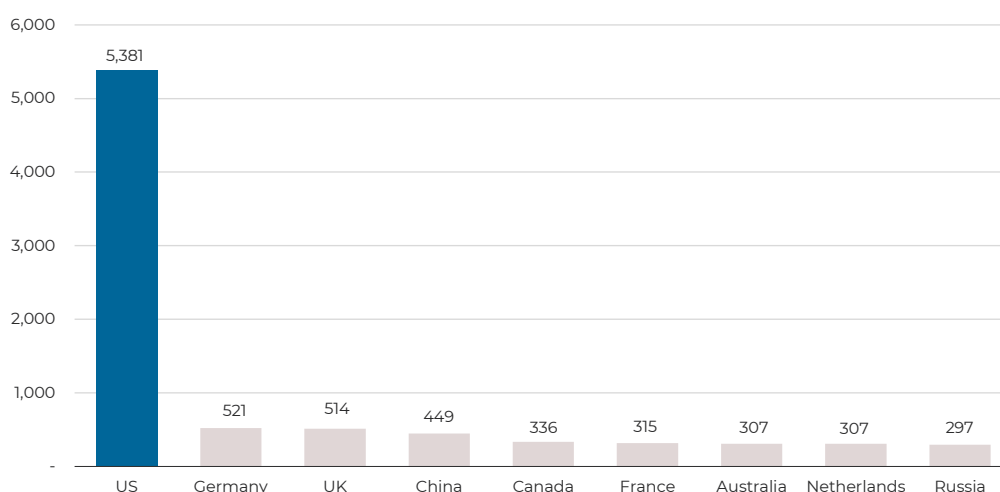
The US economy has continued to show solid growth, driven by strong consumer spending and robust corporate earnings. However, inflation remained persistent, leading to concerns about potential interest rate hikes in the future. Q3 growth was 2.8% and the expectation is of a similar level for Q4. Europe fared worse, barely recording growth, and we have seen increasing concerns over the potential of any growth there. The US has certainly been less impacted by the higher interest rates than anticipated. Much of this is due to the terming out of debt; household mortgages are typically 30 years and so have been unaffected. Equally, corporates used 2020/1 to finance out their debt maturities; net interest cost for corporates has actually declined over 2022-2024.

Donald Trump's election for his second term as US president was clearly the most consequential event of Q4, and likely to be so for the term of his presidency. Not only was it the fact that Trump won, but the scale of the victory, which most observers thought would be very tight, which led to a victory of both the popular and electoral college Republican clean sweep and, seemingly, a change in the prevailing attitude towards what had become accepted political norms.

It remains to be seen exactly what policies are enacted by President Trump. The most talked about economic policies are tariffs, lower immigration, deregulation and lower taxes. On balance, higher tariffs would likely lead to higher inflation and lower GDP growth. Lowering taxes tends to result in higher inflation and higher GDP. Restrictions on immigration point to higher wage inflation and lower GDP growth. These measures are split between being stimulative or restrictive on GDP growth, but all show more pressure on inflation. This likely means interest rates will remain higher for longer. The one balancing figure could be supply-side reform in the form of deregulation, driven in part by the new Department of Government Efficiency (DOGE), though the impact there may be longer term.

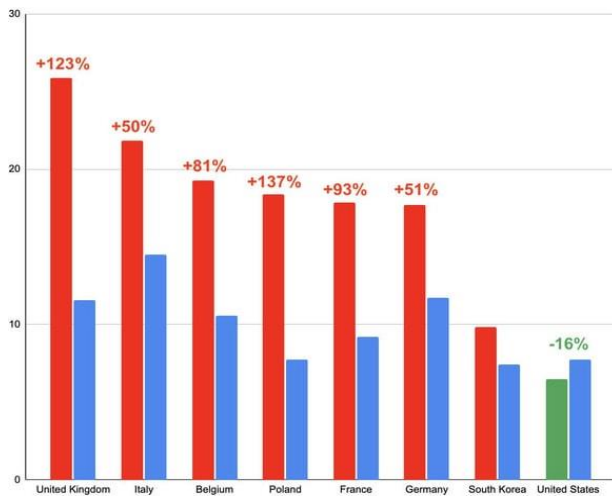
The Trump election has captured the feeling of animal spirits within the US. Indeed, in contrast with much of the rest of the developed world. US growth has been vastly superior and there has been increasing focus on this divergence, potentially due to the continued lack of growth and general pessimism in Europe and the UK in particular. Trump's policies look set to accelerate this; the focus on energy production and resulting significantly cheaper energy production alongside tariffs, which in the short term, at least, will likely harm other countries more than the US. The largest technology companies in the world are based in the US. With the advent of AI and the need for data centres, which absorb a massive amount of energy, domestic energy pricing will be an increasing competitive advantage. In simple terms, the US is aiming for technological not just leadership but hegemony, and the combination of cheap energy and lower taxes make it a highly attractive place for businesses. No other country comes close to the US in terms of, for example, number of data centres.

Number of data centres¹

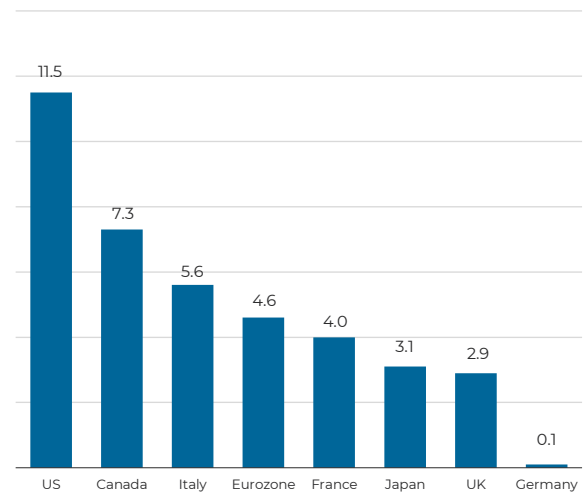


¹ Data as of 31 Mar 2024. Sources: Statista, Cloudscene, Apollo Chief Economist.

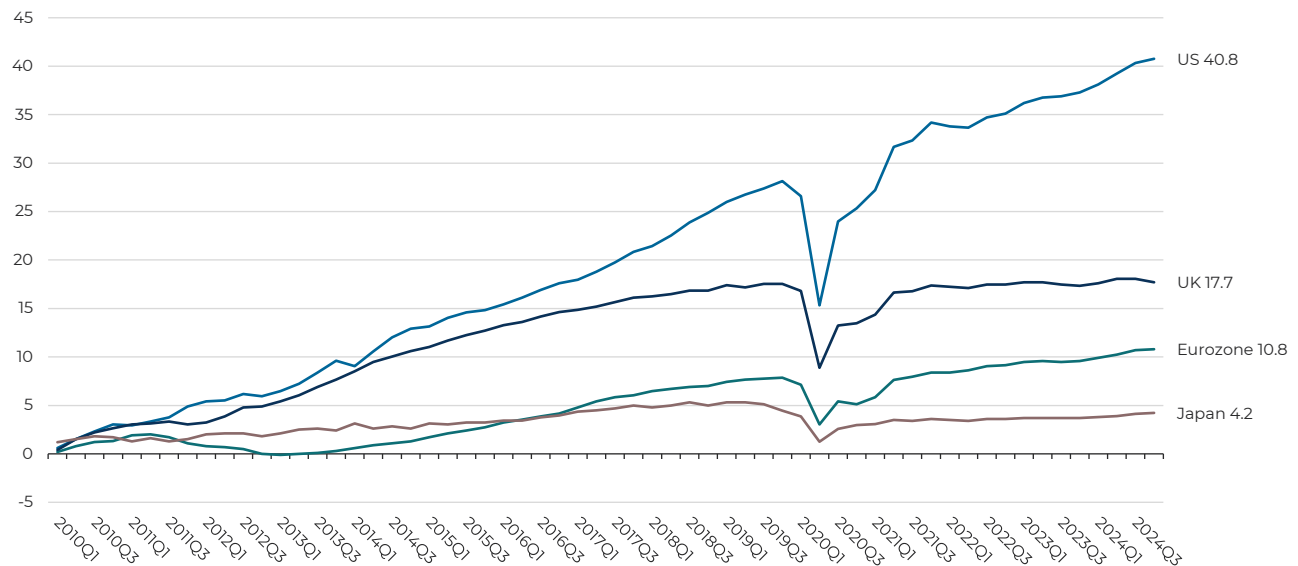
Industrial electricity prices incl. taxes (pence per kWh)¹
2023 (red/green) vs 2019 (blue)



G7 Real GDP % change vs. pre-pandemic level²
(Q3 2024 compared to Q4 2019)



Cumulative GDP % growth³
(2010-2024)



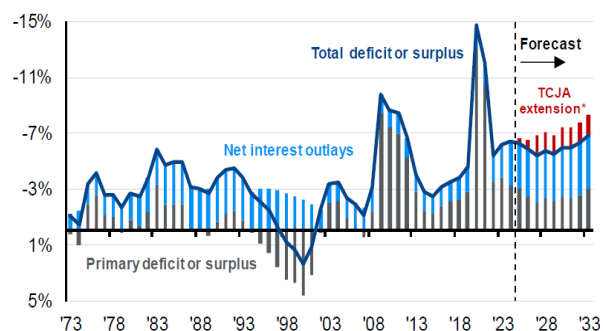
One constraint on the actions of the new administration could be the absolute levels of government debt. When Trump came to power in 2017, the budget deficit was 3% GDP and government debt 106% GDP. Today, the deficit is 6% and debt 120%. Importantly, interest rates are much higher at 4% compared with 0.25%, a response to the higher levels of inflation and with a much greater cost of servicing the debt. While inflation has come down from the high single digits, it still remains above the 2% target.

¹ Source: www.reddit.com, UK DESNZ/IEA.

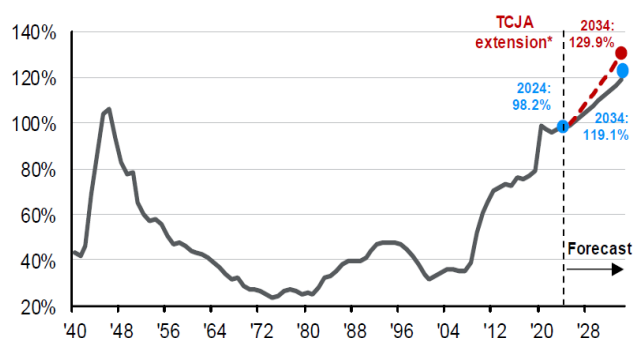
² Data as of 15 Jan 2025. Source: UK Parliament House of Commons Library.

³ Data as of 31 Dec 2024. Source: Bloomberg.

Federal deficit and net interest outlays¹
% of GDP, 1973-2034, CBO baseline forecast



Federal net debt (accumulated deficits)¹
% of GDP, 1940-2034, CBO baseline forecast, fiscal year-end



President Trump's second term will drive market activity. The scale of his victory and the rejection of the status quo are seemingly being repeated globally. Not only are incumbent governments, whatever their political persuasion, generally losing elections, but "anti-establishment" parties are gaining ground. By example in the UK, Labour defeated the incumbent Conservative government, but within less than a year is lagging right-wing populist party, Reform UK, on some opinion polls. Depending upon the success of the US, this may be continued. If the DOGE is in any way successful in cutting wasteful expenditure, reducing the budget deficit (which is common to the developed world) and making debt more manageable, other countries will have no option but to follow suit if they want to compete on GDP growth and it seems populations are increasingly keen on them doing so.

Strategy Allocations

In light of the uncertainty above, we maintain limited directionality across our core portfolios and are diversified by strategy. Our multi-strategy portfolios returned high single-digit to low double-digit performance in 2024 with minimal beta to markets. We believe that this is an ongoing, achievable and attractive return target. Many of the strategies we invest in deliver a return as a premium over the risk-free rate. We have been successful in, and continue to work hard at, securing access with the highest-quality managers, especially where capacity is constrained; this can be in new launches or with established managers.

Discretionary and Systematic Global Macro

Across our suite of uncorrelated strategies, global macro managers outperformed during Q4 benefitting from trends post the US election results. Relative value managers and commodity strategies also had a good end to the year while quantitative strategy performance was mixed.

Discretionary macro managers were well positioned for the US election outcome. Gains were generated across currencies and interest rates. Most managers had approached the election with a bias to be long USD predicated on the strength of the US economy versus the rest of the world. Post election results, the managers added to these longs, particularly against Europe and Asia. Monetary policy divergence between the US and Japan and the rest of the world is another theme our managers were focused on. Short positions in US and Japanese rates versus longs elsewhere added to performance.

¹Data as of 31 Dec 2024. Source: Congressional Budget Office (CBO), JP Morgan Asset Management, BEA, Treasury Department.

Relative value managers benefitted from a continued improving opportunity set for fixed income bond-basis strategies, which we mentioned last quarter. After a muted first half of the year, bond-basis opportunities have improved across all the major regions with the US leading the way, followed by Japan and Europe. Performance in December was positive, and our managers were well positioned for the year-end turn in repo markets.

Commodity returns were strong, led by one manager in particular who took advantage of the sharp rise in cocoa prices. We also saw good performance from managers specialised in European and US natural gas trading.

Quantitative strategy returns were mixed. Our manager with a machine learning focus had a good quarter and benefitted from the market volatility and rotations around the US elections. On the other hand, one of our quant managers who focuses on statistical arbitrage and events had losses in December, in what was otherwise a very strong year. Systematic futures strategies were very strong across the last two months of the year with gains across asset classes.

Our managers had a good end to the year and believe the US election results, combined with broader economic and geopolitical uncertainty, will cause increased volatility in asset markets. They remain focused on staying nimble and managing risk dynamically to take advantage of this volatility.

Equity Long/Short

The MSCI World finished slightly negative in Q4, but ended the year with a strong 17% gain. Equity hedged strategies also had a solid year overall, with the HFRI Equity Hedge returning 12%¹. Stenham's allocation to equity long/short managers contributed positively and delivered robust returns for the full year. Given the general strength of equity markets in 2024, it was unsurprising that our investments in directional strategies led performance. However, we were equally pleased with the solid returns generated by our uncorrelated equity long/short strategies. Overall, the environment for alpha generation was favourable.

The US presidential election was a major focus as the year drew to a close. Donald Trump's eventual victory carried significant implications for various sectors and industries, with clear Trump 'winners' and 'losers' emerging. For example, companies in the clean energy sector have faced sharp share price declines since the election, as Trump's policies favour traditional energy while pulling federal support for renewables. Conversely, US banks have been viewed as beneficiaries of anticipated tax cuts and a more favourable M&A environment. This kind of dispersion tends to create an alpha-rich environment for active managers.

Several key themes continue to dominate equity markets, including massive investment in generative AI, increased spending on the ageing US electricity grid, US onshoring, re-industrialisation and the widespread adoption of GLP-1 obesity drugs. We are invested in a broad range of specialist managers who are well positioned to capitalise on these themes, including funds focused on semiconductors and tech hardware, utilities and infrastructure, healthcare and biotech, as well as cyclicals and commodities.

While we have concentrated a significant portion of capital in specialist strategies, we recently made an investment in a blue-chip generalist long/short fund with a global mandate. This fund, which has been closed to new investors for several years, provides some beta to equity markets, with a demonstrated history of alpha generation.

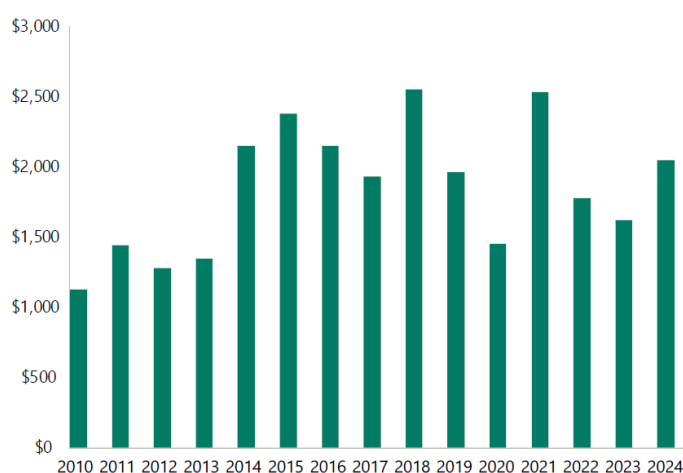
¹ Source: HFR, Inc. HFR indices are being used under license from HFR Holdings, LLC, which does not approve of or endorse any of the products or the contents shown in this material.

Event Driven

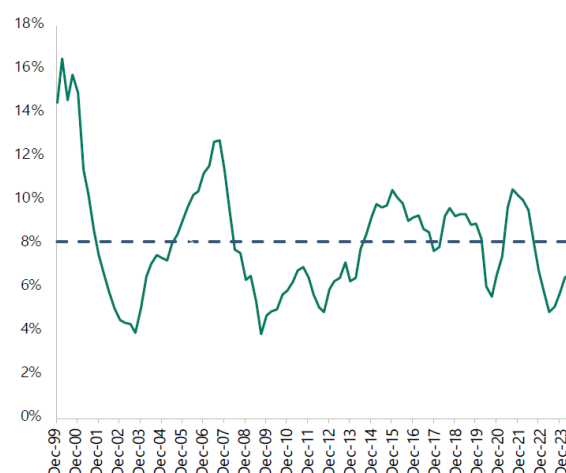
Our event driven allocation was positive in Q4 and had a good year overall delivering high single-digit returns. Our focus remains on investing in managers with hard catalyst exposures, most commonly in merger arbitrage; generally, we see soft catalyst exposures as often exhibiting high beta at times of drawdown in broader markets. That said, one of our managers did benefit from a non-merger position in Q4, which traded up significantly on Trump's election and linked to housing market finance reform. Outside of this, our lower-risk manager has increased the level of investment in equity merger arbitrage, at least in part driven by expansion of the team, including opening a European office. Our higher-risk manager traded some of the larger merger positions, such as US Steel, successfully.

M&A activity for 2024 was up 25% over 2023, but remains low as a % of US GDP compared with the long-term average. We are optimistic on M&A activity in 2025. The change in personnel at key US regulatory institutions (in particular, the Federal Trade Commission), as well as the UK's Competition & Markets Authority, are likely to enable a greater level of corporate activity. Interest rates have now been at a higher level for 2-3 years and as debt comes increasingly close to maturity the need to refinance low-coupon debt becomes less onerous compared with having 3-5 years of low coupons which need to be taken out early.

US M&A volumes¹



M&A volume as % of GDP²



Credit

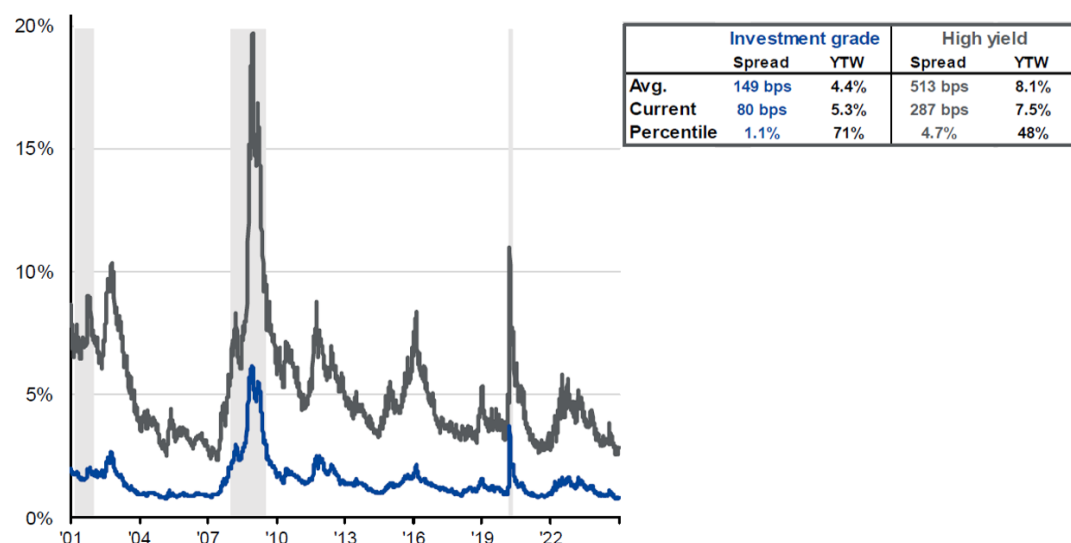
Credit spreads continued to grind tighter in Q4. CCC credits performed best; earlier in the year the yield available was more attractive and wider, but with positive US economic growth, the risk premium fell. Corporate defaults have increased moderately, and we would expect this to continue as debt written in the ultra-low interest rate and easy money environment of 2020 and 2021 become due.

¹ Data as of 31 Dec 2024. Source: Apollo 2025 Credit Outlook, Bloomberg. M&A volume based on M&A deals where target or acquirer is US based and excludes withdrawn and terminated deals.

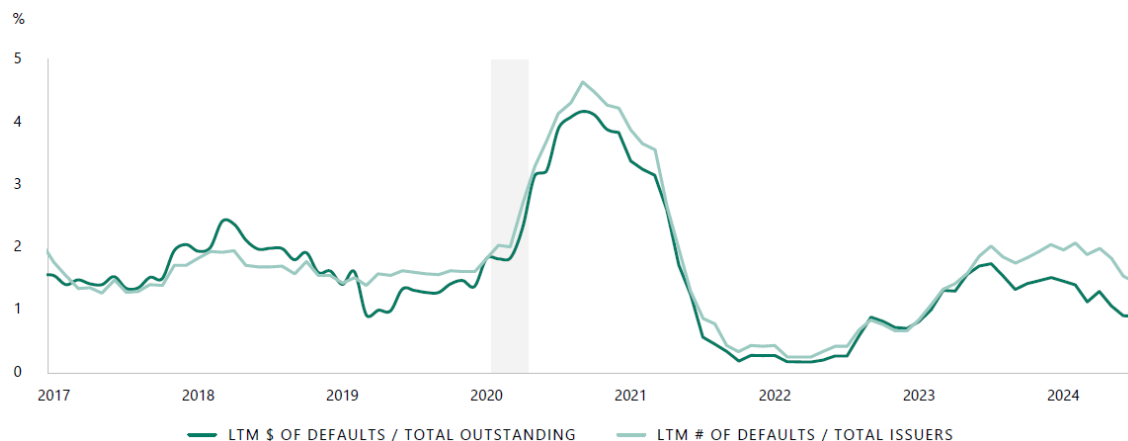
² Data as of 30 Sep 2024. Source: Apollo 2025 Credit Outlook, Bloomberg.

Corporate credit spreads¹

Option-adjusted spread, 2001 - present



Morningstar/LSTA Leveraged Loan Index default rates²



Our managers continued to perform well. One manager has operated with a long net exposure, though more recently has brought that down and also reduced gross exposure. One other core manager has a far lower net exposure. Gains have come from lower rated, more catalyst-driven longs and, whilst shorts have detracted, the low beginning spreads have insulated the impact. We allocated to a convertible bond manager during 2024 and that manager delivered high-teens performance. We remain optimistic on the outlook with the potential for continued high levels of convertible bond issuance as companies look for lower-coupon debt in a higher interest rate environment.

We launched the Stenham Credit Income Fund on 1 October. This Fund is allocated to private credit funds and is targeting high single digits from providing largely 1st lien senior secured privately originated loans to corporates. We think the outlook to provide this financing remains attractive and will likely rise if corporate activity and M&A increase. The fact that these are new origination loans, with no legacy loans written pre-2022, is appealing and evidenced by the pick-up in defaults.

¹ Source: Bloomberg, JP Morgan Research, JP Morgan Asset Management. US Investment Grade: Bloomberg US Corporate Investment Grade Index; US High Yield: Bloomberg US Aggregate Corporate High Yield Index.

² Data as of 31 Jul 2024. Source: PitchBook LCD, Apollo Chief Economist.

Summary

We are very positive on the opportunity set and return potential of our portfolios. Our core portfolios are taking limited beta to broad markets and we believe the return potential of high single digits with limited downside and low sensitivity to broader markets (be they equity, credit or fixed income) is very attractive given the uncertainty and risks in the world.

Thank you for your ongoing confidence. Please get in touch if you would like to hear more about our strategies or funds. Further information can also be found on our [website](#).

The Executive Advisory Committee



Kevin Arenson



Akshay Krishnan



Tim Beck

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