GREYJUNG GLOBAL OPPORTUNITIES

TRAMONDO INVESTMENT PARTNERS

INVESTOR LETTER Q3/2020

OCTOBER 2020

Dear investors,

For the quarter ending September 30, 2020, Tramondo GreyJung Global Opportunities CHF F, EUR F and USD F returned +0.86%, +0.79% and +1.14%, respectively, net of all fees, compared with the HFRI-I Liquid Alternative UCITS Index's (USD) +1.61%. For the year-to-date period ending September 30, 2020 the Tramondo GreyJung Global Opportunities CHF F, EUR F and USD F returned +4.11%, +4.19% and +5.38%, respectively, net of all fees, compared with the HFRI-I Liquid Alternative UCITS (USD) Index's -2.05%. Assets under management stand at CHF 40m.

Please find below a summary of each month of the second quarter of 2020 and our outlook.

REVIEW

July marked a solid month for the fund. Major central banks took something of a back seat over the past weeks, having already flooded the market with liquidity and taken rates close to their lower bounds. The improvement in economic activity did not have a significant impact on the equity markets as the news flow on the development of COVID-19 deteriorated globally. Once again, the European markets disappointed as the subsequent rise in prices was like a flash in the pan following the agreement to provide aid to the countries most affected. In any case, all those fund positions in which we were very confident were confirmed - i.e. short US-Dollar Index, long precious metals and gold mining stocks. It was very likely that there will be further price adjustments as a result of changing market expectations regarding the course of the economic recovery. The US-Dollar Index has seen the largest decline in a decade and was starting its bear market, which will have very important implications on all asset classes, regions, sectors and styles (see outlook section for more information).

August recorded a volatile start for us, mainly driven by a sharp correction in precious metals after a stellar rise since June. Except for precious metals, it was a rather calm month as our main conviction positions (gold, USD-Index) thereafter took a breather while growth stocks continued to perform well. The reporting period also marked the end of the second quarter's earnings season, which surprised on the upside relative to weak expectations. Unsurprisingly, the healthcare and information technology sectors were particularly strong. In terms of monetary policy, the Fed announced a shift to average inflation targeting at the Jackson Hole virtual conference, confirming that monetary policy will remain supportive for the foreseeable future. Still, we were closely observing the implications of the significant USD-Index decline and its impact on all asset classes, regions, sectors and styles.

The month of **September** started with the final climatic run up in the US followed by a very sharp sell-off led by technology stocks and other leading companies mainly in the US growth area. This started what has been a disappointing month for the fund. We entered with a cautious stance and reduced exposure especially regarding our US growth stocks engagement. Nevertheless, we have had to give up initial gains during the first day of the market sell-off. Thereafter, we positioned the portfolio for an initially strong rebound that took an immediate cold shower. In addition, other positions such as our short US-Dollar Index as well as long precious metals were still in their consolidation phase while long dated US treasuries – that usually spike in corrections – did not act at all leaving little opportunities to compensate. To make matters worse and being in risk management mode, we finally had to briefly sidestep/reduce our main convictions (US-Dollar Index, precious metals) as they started to rebound/pull back significantly. Although the majority of our ideas moved against us, our rigorous risk management enabled us to limit losses. Especially during these difficult times, it is very important to reflect the pain and continuously improve on lessons learned. In the final days of the month, we have experienced a normalization within most asset classes where we confidently could reestablish several positions highlighted in the outlook section.

For the quarter, our top contributors were long gold and silver, short US-Dollar Index and a basket of global growth stocks while our worst contributors were our China and biotech exposure and long dated US treasuries.

OUTLOOK

The fourth and last quarter of 2020 with the US presidential election will bring a very eventful and challenging year to an end. Furthermore, we will keep a very close eye on the US-Dollar Index and US yields, respectively, as their movements have significant implications.

Regarding the presidential election we keep an open mind and let the tape (price) dictate the direction as "Mr. Market" is always right. **We will tend to have a low risk portfolio into the election and plan to benefit from emerging trends after the fact.**

Considering the most recent moves in the US-Dollar Index and US yields, we slowly but surely gather hints on possible newly emerging leaders. Historically, value stocks (materials, industrials, energy and financials) have often outperformed growth stocks when the US dollar weakened and global growth strengthened (such as from 2001 – 2007). However, the relationship between value and growth stocks, the dollar, and global growth broke down this summer. There are two reasons why this happened. First, investors were too slow to price in the tailwind that growth stocks in the tech and health care sectors would end up receiving from the pandemic. Second, rather than rising in response to better economic growth data, real rates fell during the summer months. A falling discount rate benefits growth stocks more than value stocks because the former generate more of their earnings farther into the future.

A bearish USD is bullish reflation, which would push cyclical sectors such as materials and industrials but also emerging markets where we might see attractive investment opportunities with improving fundamentals. In terms of yields, we see little upside as the Fed will not hike rates at least until 2023, and it will take even longer than that for interest rates to rise elsewhere in the world.

Our highest conviction ideas can be found across various asset classes but remain similar as during the most recent months. On the currency side, we invest into the US-Dollar Index on the short side. Unlike last year, the dollar faces a number of headwinds over the coming months. First, it no longer benefits from higher US interest rates. Indeed, US real rates are below those of many partner countries because US inflation expectations are generally higher than elsewhere. Second, the dollar is a countercyclical currency, meaning that it tends to move in the opposite direction of the global business cycle. If global growth recovers over the coming quarters, the dollar should weaken. Third, the current account deficit is rising again, and the trade balance is set to be widening further. This deterioration in the dollar's fundamentals is occurring against a backdrop where the currency remains overvalued based on several fundamental measures such as purchasing parity exchange rates. Of course, a weaker dollar is usually good for commodity prices and cyclical stocks.

After having been bullish on gold for quite a while, we like to reiterate our positive view on gold and silver (tactically) once more – especially after the most recent correction. A weaker dollar will boost gold prices, while higher inflation down the road makes gold an attractive hedge, opportunity costs remain low and "safe haven" assets will be sought after. Additionally, we keep on liking gold miners which are consolidating after their most recent multi-year breakout.

Regarding equities and their fundamentals, the focus will be on the forthcoming earnings season during which we should get more insight into the status quo, trends and sentiment as well as the market's risk appetite. Specifically, we will be looking for confirmation of the existing tailwinds for companies supported by secular growth trends and, most importantly, the reaction of the market to earnings releases. Considering thematic investments, we continue to like technology and health care related companies in general. Since a bearish dollar is bullish reflation, we will keep a close eye on cyclical stocks such as materials and industrials.

As previously mentioned in our letters, we always have a clear plan at hand of what we want to see and what we do not want to see and will adjust our portfolio accordingly and focus on risk management which is deeply rooted in our DNA. During what is likely to be a volatile final quarter ahead of us, we remain flexible, open-minded and try to take advantage of opportunities where they arise - day by day. We will stick to our investment philosophy: **"In investing, we cannot direct the wind but we can adjust the sails"**.

In our quarterly letters, we highlight the investments we made to familiarize readers and investors with our approach.

TRADING EXAMPLE - **US-DOLLAR INDEX:**

1. Initiation of short US-Dollar Index after first breakdown
2. Increase of position as we have seen a second breakdown of a longer bear flag pattern
3. Took initial profits and traded around as we have entered a bottoming process
4. Closure of whole trade as of countertrend move
5. Re-established short US-Index position as we hit resistance after consolidation

US-DOLLAR INDEX

We thank all our investors for your continued confidence in the partnership of GreyJung and Tramondo Investment Partners AG. We wish you all the best personally and professionally - be well, be good and take care during these unprecedented times and may the Christmas Rally take place!

Best wishes,
GreyJung Partners
Tramondo Investment Partners AG

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