Investment Philosophy

We continue to consider drawdown the only useful measure of risk and its avoidance is the cornerstone of our investment process. Our process relies on various techniques aimed at identifying, and ***avoiding underperforming assets****. We are prepared to be fully invested in cash. In addition, we believe that markets and the decision-making process of investors in markets, is generally inefficient. We build portfolios that are resilient in the face of market declines and that compound positive returns stably over the course of the market cycle.*

Performance Summary

The MONOGRAM Strategy return 0.5% gross in the month of January and 11.7% for the year 2020.

2020 provided ideal conditions for stress-testing the Monogram strategy. The year started off smoothly only to plummet in March following the announcement of the COVID-19 pandemic and ensuing lockdown of national economies.

In the midst of this, the strategy as it is designed to do, managed to preserve capital with losses peaking at -8.8% in March relative to in excess of -30% for all major indices (S&P 500, MSCI World and ACWI) equating to a down-market capture ratio of 0.28. This was aided by exposure to the Gold and Investment Grade bonds which helped soften the blow. We must remember that the whole purpose of a strategy such as relative and absolute momentum [3] is to avoid volatile extreme movement and, with this stress-test, we achieved that.

The strategy was quick to re-engage itself back in the equity markets, pointing to Emerging Market Asian Equities and US Technology stocks (NASDAQ) to capture a rebound. The success of this led to a 4-month recovery period. By July performance was restored to pre-pandemic levels.

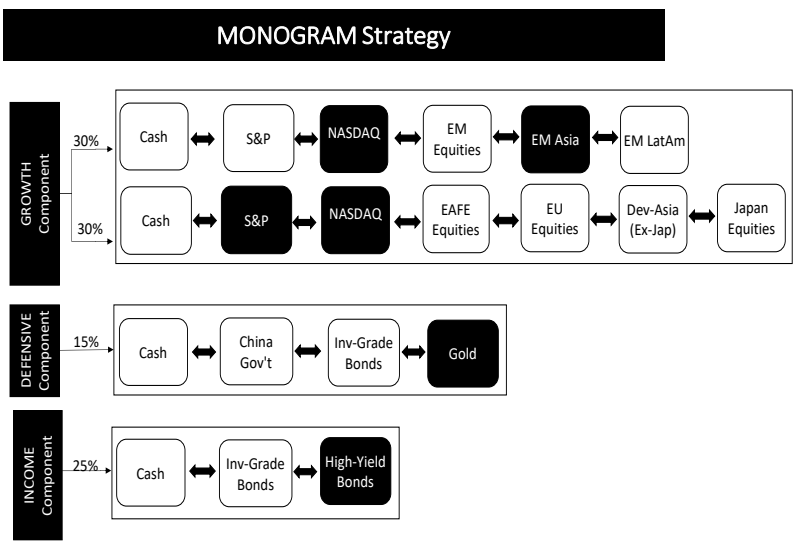
Peer Group Performance: For The Year 2020 [4]

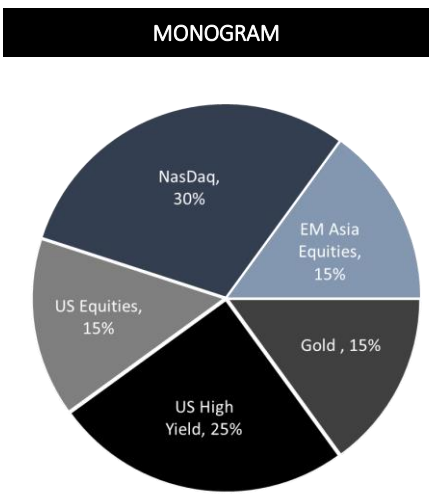
Performance	Monogram	AQR	Aviva	St Life	Carmignac	Invesco	Ruffer
	(Gross)	(Net)	(Net)	(Net)	(Net)	(Net)	(Net)
Jan-2021	0.5%	-0.5%	1.6%	-0.7%	-1.6%	-0.4%	-0.3%
3 Months	9.7%	7.4%	0.5%	3.0%	5.9%	1.1%	7.2%
6 Months	9.6%	6.2%	-0.4%	3.8%	6.8%	0.1%	5.8%
9 Months	19.6%	11.7%	-6.4%	8.3%	14.8%	-2.1%	8.8%
12 Months	10.8%	1.5%	-9.7%	3.7%	10.7%	-3.5%	16.1%
2020	11.7%	2.2%	-11.7%	7.2%	13.8%	-1.6%	13.8%

Source: Reuters & Monogram Capital Management

Performance amongst peers was mixed for 2020. Aviva underperformed, while Ruffer and Carmignac secured joint top position with Monogram second. An excellent result.

For February 2021, the strategy favours: US Equities, NASDAQ, EM Asian Equities (in the Growth Components); Gold (in the Defensive Component); High Yield Bonds (in the Income Component).



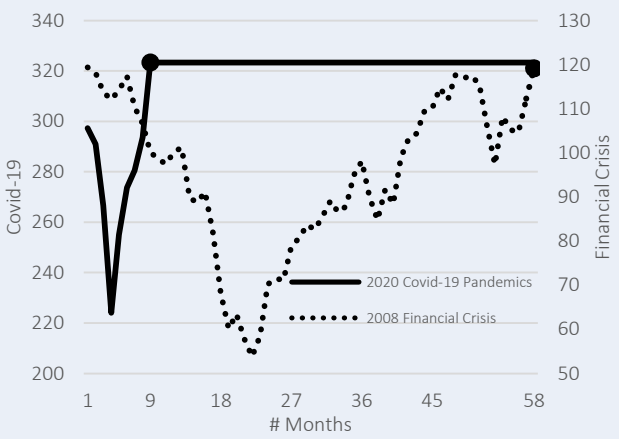


[1] Performance of the MONOGRAM Model is provided for illustrative purposes to highlight the capabilities of MONOGRAM Capital Management Ltd as an investment manager. It refers to past performance which is not a reliable indicator of future performance. Returns may increase or decrease as a result of currency fluctuations.
[2] Gross: excludes management fee.
[3] Gary Antonacci, Dual Momentum.

Market Overview

The jury is still out as to whether the cumulative economic impact of COVID-19 is comparable to the 2008 Financial Crisis. Yet, if we are to go by recent market activity the answer appears to be a resounding no. Markets are pricing in a vaccine-led economic recovery for 2021. Risk is being placed back on the table at an accelerated rate, an indication of which, is apparent when observing the performance of consumer discretionary Indices: a cyclical sector which typically underperforms when economics activity coupled with disposable incomes (and/or accessibility to credit) are low. Below we observe the performance of the S&P Global Consumer Discretionary Index[5] during both the 2008 Financial Crisis and 2020 COVID-19 Pandemic. The reported time taken to recover performance to pre-crisis levels during the Financial Crisis was a little shy under 5 years (58 months), while, only 9 months for the prevailing

S&P Global Consumer Discretionary Index: The time (in months) to recover performance to pre-crisis levels



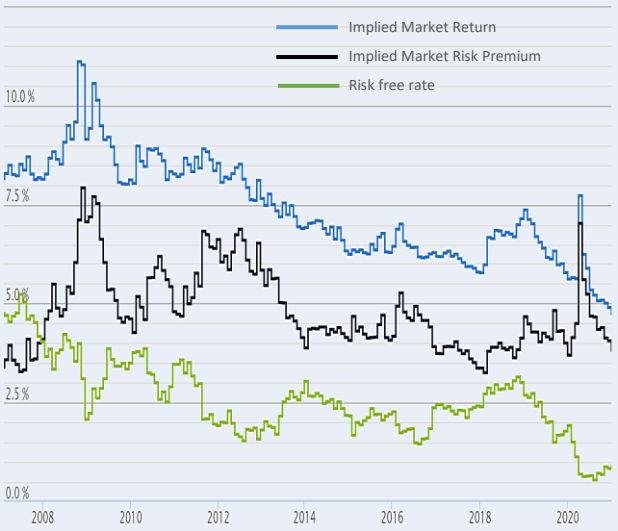
Source: Reuters & Monogram Capital Management

pandemic. This dynamic is not solely confined to a cyclical sector such as consumer discretionary, but, prevalent across the board. From Financials[6], Industrial[7] and even Materials[8]?! Furthermore, the strong convergence on cross correlation amongst asset-classes, one observes during a market downturn, is dissipating[9]. Let's be clear, this should not act as a catalyst for market participants to take on more risk, yet, it certainly accommodates it. In January, nearly everything backed off together, while an over extended market with spiking volatility, together with US political factors, conspired to produce negative returns for many stock markets. The MonograM model nevertheless returned 0.5% gross (0.4% net).

The very end of the month was punishing for hedge funds, with sudden anxiety about co-ordinated short squeezes surrounding the Reddit debacle…What is clear is the direction of travel as mapped out by the market, namely, a comparably hasty vaccine-led recovery.

We can conclude markets don't appear to be too concerned with valuations. Traditional estimates from the likes of Price-to-Earning[10] and Market Capitalization-to-GDP[11] ratios appear grossly elevated when looking at the US, yet alternative metrics, namely, Risk Premium - compensation investors are receiving to take on additional equity risk, after factoring in current low interest rates - appear muted-to-fair (ref. below). This is all contingent on rates remaining subdued for the foreseeable future and with inflationary expectations (pressure) dampened by excess capacity this may come to pass yet.

US Equity Implied Market Risk Premium [12] : Alongside Implied Market Return and the Risk Free Rate (2008 – Dec 2020).



Source: Market Risk Premia [7] & Monogram Capital Management

The model has duly noted the uptick in risk-on sentiment exhibited in the markets and has tilted towards a more aggressive stance. Please remember that the model has policies on the introduction of funds to the market and in cases the movement between asset classes designed to avoid dislocations at the month end, or to avoid buying into a peak. You own account (and each account is individual) may reflect these changes, although they should be of limited duration.

[4] Fund Identifiers (ISIN); AQR: LP40186956, Aviva: A119DBX.DX, St Life: LP68090812, Carmign
[5] Ticker: SPG25CUN.
[6] Ref. iShares Global Financials ETF (IXG) - Link: https://www.ishares.com/us/products/239742/
[7] Ref. iShares Global Industrials ETF (EXI) - Link: https://www.ishares.com/us/products/239745/
[8] Ref. iShares Global Materials ETF (MXI) – Link: https://www.ishares.com/us/products/239748/ishares-global-materials-etf
[9] Ref. BlackRock's cross correlation matrix - Link: https://www.blackrock.com/corporate/insights/blackrock-investment-institute/interactive-charts/market-risk-monitor#concentration
[10] The S&P 500's P/E ratio remains highly elevated approaching 2 standard deviation away from it's historical mean, a level not exceeded since the 2000 .Com Bubble. Link: http://www.currentmarketvaluation.com/models/price-earnings.php#:~:text=The%20current%20S%26P500%2010%2Dyear%20P%2FE%20Ratio%20is%2033.91.
[11] The S&P's MCAP/GDP ratio is currently at its highest level seen since WWII. Link: https://www.longtermtrends.net/market-cap-to-gdp-the-buffett-indicator/
[12] Link: http://www.market-risk-premia.com/us.html