ATLAS GLOBAL MACRO

INVESTOR REPORT

Reporting period: August 4th to September 1st 2021

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Fund Performance August 4th to September 1st

- The fund's Net Asset Value decreased from 97.11 on August 4th to 96.58 (-0.55%) on the most recent official NAV calculation on September 1st
- South Korean equities had the largest impact on performance as they dropped by 10% from August 4th to 19th when the position was stopped out. South Korea is a very open economy and is as such a high beta play on global trade and the (corona) re-opening trade, which went into reverse as the Delta variant spread. Our long position in Korean equities caused as such a negative contribution of 0.97% over the month
- Likewise, it was prudent from a risk management perspective to close out long FX positions (vs. USD) in CAD, NOK and SEK around the substantial market volatility on August 18th-19th. This cost the portfolio 0.34%, 0.27% and 0.23 Also, allocations to Italian and US Tech shares hurt performance by 0.43% and 0.54% respectively
- However, we kept our long AUD / short USD position open during the mid-month volatility. This ended up adding 0.21% to the return
- Commodity prices generally traded lower during August – amidst high volatility. As such, our equity basket of Metals & Mining stocks subtracted 0.24% from returns
- On the positive side, Atlas' substantial exposure to value stocks paid off – with a +0.33% contribution to returns
- Our selection of individual Greek Banks rose 2-5% on the month and added (combined) 0.16% to the overall return
- Various long positions in Russian equities make up one of our largest positions (relative to the fund's Net Asset Value). Russian equities rose almost 5% during August and added 0.80% to performance

Macro and policy backdrop

- In Merrill Lynch' latest Global Fund Manager Survey, investors reported to being most concerned about inflation, tighter US monetary policy as well as the spread of the delta variant
- Our top down view is that the fundamentally healthy macro and policy backdrop won't be affected by inflation nor the delta variant

  (1) The high inflation in the US is likely to be transitory and has started to trend down again (4.3% YoY in July vs 4.5% in June)

  (2) The delta variant could be about to peak in the US and we don't see new lockdowns on the horizon in Europe or the US
- The US economy is growing at a 5.7% annualized rate right now, according to Atlanta Fed. Corporate earnings typically have a 6-7x beta to economic growth, so we expect companies to continue to perform well

- All in all, our fundamental 'Goldilocks' view is still intact, and 2021 reminds us in many ways of the situation after 2001 when Value and Emerging Market shares began a multi-year outperformance amidst USD weakening
- The fund's exposure to risky assets is today higher than was the case one month ago – for example, total fund leverage (relative to Net Asset Value – NAV) today stands at 185% vs. 134% last month
- Of this, the exposure to equites stands at 87% of the Fund's NAV

Equity Markets

- The US Q2 earnings season is now over and the stellar performance supports the view that we are now firmly in what Goldman Sachs calls the 'Growth Phase' – i.e. the part of the cycle where companies have to deliver on rising earnings expectations, in order to propel equity markets higher
- 87.2% of S&P500 companies have delivered better than expected earnings in Q2 – this is the highest level seen in the 30 year data history we have available. Q2 earnings have risen 93.1% YoY, which is 16.4pp better than expected
- Though equity prices after strong performance in the first two quarters are up by roughly 20% YTD, this is more than countered by a rise in forward EPS estimates. As such, 12m forward Price Earnings Ratios are actually *lower* today than was the case at the beginning of the year
- Global Equity Risk Premia ('ERP' - the difference between equity earnings yields and 10y government bond yields) still stand at around 6%. As such, we still view global equity markets as being attractive from a valuation standpoint, and the asset class is still being supported by the fundamental macro- and policy backdrop (as discussed on the previous page)
- On a tactical level, we are a bit more cautious based on various investor positioning indicators
- US Tech remains crowded and overvalued, while Chinese stocks now appear undervalued. We do not believe that it is the time to buy Chinese stocks yet, but we are monitoring Chinese monetary and fiscal policy closely for signs of increased stimulus
- Regionally, we prefer Europe and Emerging Markets where ERP are highest/most attractive. US equities, on the other hand, suffer from relatively lower ERP, although it is still more than 5.5%

- Long positions in EM and European Value stocks form a core holding in the portfolio, based on our long term fundamental view that Value stocks are historically cheap (especially vs. Growth stocks). The cycles are long, and Value looks set to outperform Growth for the next 4-6 years
- The fund's exposure to Russian equities continues to be around 25% of NAV. Russian equities are both cheap (PE of just 7.4x) and highly correlated to oil prices, which we have a bullish view on
- We have also bought Italian shares over the last month. Italian stocks look cheap on fundamental metrics, and Italy currently has a relatively stable and reform-oriented government
- Elsewhere, the fund is long selective Greek bank shares. Greece is a high beta play on the covid-19 reopening trade (tourism), the Greek economy is at an inflection point (partly due to more flexible labour market laws) and the government is removing bad debt from banks' balance sheets through securitization programs with government guarantees

Commodities

- Commodity markets look set for a rerun of the long bull market which started in the early 2000s
- Why? In short because *"decarbonising means metallising"*
- If the global goal of a 70% reduction in CO_2 emissions is to be reached by 2050, then, by some calculations, global capex needs to increase from 25.8% of GDP to around 28%. This is equivalent to a rise in annual capex of USD 2000bn. This is roughly the same capex increase as that witnessed during the BRIC boom of the 2000s
- This will result in a sustained metals demand boom
- Copper, in particular, looks set for a sustained bull run. Renewable energy sources use 3-8x more copper as input for every MW they produce compared to conventional energy production. And wind and solar energy is estimated to account for 40% of global electricity production by 2050 (although nuclear fusion might partially upset that forecast)
- Also, countries use much more copper as they become more prosperous. For example, when India and Indonesia get just half as rich as China, global copper demand will increase by 30% just because of this. Furthermore, the ongoing switch to electric cars will be a big driver. Today, the production of an electric car requires on average 83kg of copper – compared to just 23kg for the production of a car with a traditional internal combustion engine
- In order to benefit from these themes, the fund is long selective materials and mining companies, long CAD (vs. USD), long Russian equities, and copper. The main trigger will be a reversal in the Chinese economy, which is now slowing cyclically but is likely to re-accelerate within 6-9 months, if not before.

- This month, we have also added a long position in silver, which looks interesting from a technical and fundamental perspective.

Foreign Exchange

- In recent decades, the US dollar has traded in regular patterns: 5 bullish years followed by 10 bearish years
- The combination of Federal Reserve QE, the switch to Average Inflation Targeting and twin (fiscal and current account) deficits plus negative developments in net foreign direct investments, means that we are likely to be in a longer term USD bear market
- USD weakness is typically a positive for EM companies which have large amounts of USD-denominated corporate debt. The fund is long EM value shares
- In the short term, seasonality effects are usually bearish for the USD in Q3 and Q4.
- There is also a strong net long speculation position in the USD, which can amplify the move in the opposite direction when the trend turns.
- We are long AUD vs. USD given our positive view on commodity prices, and AUD's very high correlation to these
- The fund has re-entered a long position in Canadian dollars (CAD) vs. USD based on our positive view on oil prices as well as the outlook that the Bank of Canada is likely to raise interest rates much sooner than the US Federal Reserve
- Recently, we also re-entered long NOK vs. short USD as the Norwegian Krone looks very cheap based on various fundamental metrics

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