

RML GLOBAL ALTERNATIVE SMART ALPHA AMC

JUNE: - 0.27%

YTD: + 5.84%

1 YEAR: +11.84%

Monthly Commentary
June 2021

RML Advisory

Fraumünsterstrasse 16

CH-8001 Zürich

Phone: +41 44 521 10 56

E-Mail: hello@rml-advisory.ch

www.rml-advisory.ch

SUMMARY

June was overall a mixed month for our strategy. While all of our Global Macro managers as well as our CTA manager closed the month negative, Systematic Trading, Long/Short Equity & Arbitrage, Global Fixed Income & FX, as well as Market Neutral/All Weather and Volatility Arbitrage were able to contribute positively to the monthly result. In contrast, our two Alternative Multi-Asset managers ended the month collectively in negative territory.

At the overall portfolio level, thus the month closed with a moderate negative number.

HFRX Global Hedge Fund Index	June 2021: +0.38%	YTD: +3.73%
HFRX Absolute Return Index	June 2021: +0.58%	YTD: +2.46%
HFRI Fund of Fund Composite Index	June 2021: +0.30%	YTD: +4.75%
RML Global Alternative Smart Alpha	June 2021: -0.27%	YTD: +5.84%
S&P 500 Index	June 2021: +2.22%	YTD: +14.41%

Performance Attribution June 2021	
Systematic Trading & CTA	-0.15%
Global Macro	-0.15%
Long/Short Equity & Arbitrage	+0.22%
Global Fixed Income & FX	+0.12%
Market Neutral/All-Weather	+0.02%
Volatility Arbitrage	+0.02%
Alternative Multi-Assets	-0.25%
Gross Performance	-0.17%
Pro Rata Fees	-0.10%
Net Performance	-0.27%

SYSTEMATIC TRADING & CTA

The 10-year Treasury yield eased throughout the month from over 1.6% to around 1.45% as the market is reevaluating the case for sustained inflation above 2% in the long run. On the equity side, the S&P 500 performed over 2% in its fifth positive month in a row. This market environment with subdued volatility did not offer many trading opportunities for the manager's protection strategies. Nevertheless, the strategy's capability to contribute positive performance in quiet times was underlined again in June.

Our CTA manager, a fully systematic trend-following strategy, was down by -3.4% in June. The largest detractors were FX CAD long, Cooper long, Gold long, FX GBP long and USD long Bond 20yr. Positive contributions were achieved through Crude long, Natural Gas long, Brent Crude long, Gasoline long and Heating oil long.

GLOBAL MACRO VALUE

Like the quarter itself, Q2 ended on a somewhat disappointing note with the last days of June taking the month to negative (-0.7%) and the quarter to up only modestly. For the month and quarter, the broad story was that the manager was right about being long equities and risk generally but wrong to be short bonds (paid rates) and in June being too short USD. Breaking down performance by the manager's two principle ways of viewing the portfolio the quarterly attribution was:

By asset class: +2.9% equity and equity vol; +1.4% credit; +1.5% commodities; -2.9% rates (incl. cash); -1.5% FX.

Although the manager was wrong on the second quarter, he maintains his view that we are in a period where both equities and interest rates will rise, but for now the manager has closed out all cyclical positions as he worries about the delta getting out of hand.

The obvious risk the manager sees is this: overheating that forces the Fed to act - possibly aggressively. The big questions here are when they would have to do it and how far the Fed would have to raise rates to stop the cycle. The question of when seems clear: The Fed will only raise rates when all three criteria - full employment, core PCE persistently above 2%, and inflation expectations at 2% or above - are met. Full employment seems likely in mid to late 2022. Inflation, that remains to be seen.

GLOBAL MACRO SYSTEMATIC

The manager's systematic multi-strategy Global Macro investment program finished the month in negative (-1.29%) territory.

In June, the US Fed took a more hawkish stance, signaling they may increase rates before 2023, which drove the major market moves and themes this month. This was a notable example of two recurrent macro phenomena. First, this illustrates the impact on markets of central bank policy changes (or hints there-of). Second, how events of this nature can trigger capital flows across asset classes. In this event, the dominant responses were a strengthening of the US dollar, a shift in global fixed income yields, and a sell-off in agricultural and metals commodity markets.

Our Systematic Global Macro Multi-Strategy Absolute Return investment program closed the month in negative territory (-0.47%). For the month of June, losses in the manager's technical (divergent) portfolio in currencies and commodity markets outweighed the positive performance of the fundamental (convergent) portfolio. The positive performance in the fundamental (convergent) portfolio was driven by positive performance in $\frac{3}{4}$ of the portfolio's systems – Global Equities, Global Fixed Income and Volatility Alpha – with a small loss in the Convergent Commodity Alpha System. The systems were able to capitalize on falling yields in long duration Japanese and Australian fixed income, the continued rally in global equities and lower volatility. Commodities were the main source of underperformance for the period, as losses in certain sectors such as Metals, Meats and Softs hurt the Convergent Commodity Alpha system.

LONG/SHORT EQUITY & ARBITRAGE

The manager reported another positive figure for the month of June, returning +1.12% on the month and outperforming the market neutral hedge fund index by 0.42%. The strategy is outperforming the index by 0.4% over the last 12 rolling months and by 32% since inception.

The capital allocated to the jurisdictional financing strategy (Arbitrage) forward the of April is performing in-line with expectations.

The manager continues to focus on risk management withing the portfolio of strategies.

GLOBAL FIXED INCOME & FX

The Federal Reserve surprised the markets in mid-June when it announced that they are forecasting two rate hikes in 2023. The market reactions were decisive and swift: the dollar rallied strongly, the yield curve flattened significantly, and the stock market sold off. As usual, stocks subsequently reversed and rallied to new highs, but the dollar remains strong, and the yield curve has steadied but remains flatter. The post FOMC volatility was favorable for the manager's models, and the program ended with a small profit for the month.

The dollar continued to decline in May with the Euro, Pound, Swiss and Canada rallying and Yen and Australia consolidating. Overall, FX trading was profitable, with machine learning, breakout and contrarian families generating profits. The tight range and low volatility in the Australian dollar was a small negative for the models.

In the US fixed income sector, machine learning, momentum and breakout styles were able to capture profits from being long the long end of the curve. A long dollar position taken by machine learning, momentum and breakout families generated profits as well.

Overall, June was a profitable month. US Fixed income led the way with the majority of the approximately +3% return generated right after FOMC meeting. European fixed income markets were more static, and the sideways price action was not favorable for our strategy, leading to losses of about 1%.

In currencies, the manager was able to remain positive in most currency pairs, but the Yen market was difficult for the machine learning strategies. The strategy finished the month down about 1% in FX overall. With summer here and markets in a generally lower volatility state, participants may be looking for a typical summer doldrums. However, with geopolitical flare ups and continued imbalances in the economic landscape, the manager remains on guard for a rapid rise in volatility.

MARKET NEUTRAL/ALL WEATHER

The US Market / S&P 500 was in a firm up trend in June with only one significant drawdown that was immediately reversed. The main themes driving the market in June beyond strong economic recovery across the globe, was the Fed guidance for future rate trajectory, while the market initially took Fed officials initial indication negatively, this was immediately corrected the week after and the market restarted its uptrend until the end of the month.

The manager's strategy was dragged a bit by the two hedges in June. The hedges benefited initially from the Post Fed meeting drawdown with the strategy up more than +2% when the market dropped more than -2% but then gave the best part of it back as the market jumped back up.

Volatility Long short had a good month in June, up +1.15%. Overall, the manager closed the month with +0.47%.

VOLATILITY ARBITRAGE

A few themes have been dominating the first half of 2021. To start with the saga of retail traders, who self-organized via social media groups, caused targeted short squeezes in shares of virtually bankrupt companies. This event triggered painful losses for prime brokers and other leveraged funds and led to the demise of Archegos Capital. Furthermore, there was also heightened volatility in commodities and crypto currencies as well as sector rotation in equities. An overarching theme for the first half of the year constitutes the developments around Covid-19 - both the vaccination campaign and economic recovery plans leading to rising inflation expectations.

The month of June saw limited moves, except for June 18th, when the US Federal Reserve discussed a possible interest rate hike driven by a pick-up in inflation. Market reaction lagged the event, and thereafter recovered promptly.

The VIX index closed the month almost one point lower than in May. This marks the lowest level since the March 2020 crash. The implied volatility was under pressure in June, resulting in a historically steep term structure.

Relatively little action took place in dispersion strategies. The quiet month also translated into limited moves on single stock level. In general, stocks benefiting from rising interest rates (e.g. banks) fell and stocks benefiting from low interest rates (e.g. technology sector) rose, which can be attributed to the falling long-term interest rates in the US.

ALTERNATIVE MULTI-ASSETS

Our multi-asset managers provided both a negative number of -2.49% respectively -2.56%.

The June performance of -2.49% of our core multi-asset strategy may be perceived to be a blow to the strategy. However, it is important to understand that this is not the case. The fund's venture debt strategy and its underlying borrowers are performing very well, maintaining strong consistent returns into the fund on all the loans made.

The business plan of each borrower remains strong, and the companies have not only adapted to changes in market trends but actually increased their overall profitability.

When the committee initiates a conversion of a borrower's loan to equity in their company, it is a strategy implemented because the report & review of the borrower shows a high likelihood that there will be a spike in the value of the underlying company. The committee does not have the ability to know when the exact value add will take place, only that the company has made strides to increase their market value. This can sometimes take a little longer for the market to mirror this sentiment, which can then mean that before the rise in price the investment value of the conversion may fluctuate, adding a degree of volatility on a temporary basis to this part of the fund. This is expected and within the parameters of the fund and its venture debt strategy, allowing investors to benefit from a potentially greater level of longer-term performance.

Our second Multi-Asset manager aims to diversify cash flows across issuers, sectors, and geographic sources of earnings, while drawing on research into key environmental, social and governance (ESG) factors. No one issuer should be a single large driver of fund returns.

To achieve this, the manager now caps the size of issuers based on their credit quality, rather than in reference to their index weights.

The manager believes that a deep and targeted focus on diversification, allied with an ESG-integrated assessment of fundamental credit quality, can potentially allow more balanced and responsive portfolio construction. The goal is to ensure investors are insulated from some of those avoidable negative biases of fixed income indices. Looking ahead, the manager is seeking shorter duration offerings, as historically they displayed a lower level of volatility in anticipation of rising interest rates.

With reference to this month's specific performance, GBP class continued its upward trajectory with the USD offering (in which Global Alternative Smart Alpha has been allocating) being subject to currency fluctuation. The USD share class closed the month with -2.56%.

General Disclaimer

This document was prepared by RML Advisory for informational purposes and is not the result of a financial analysis. It is for your information only. This document does not constitute an offer, solicitation, or recommendation to buy or sell certain products, to effect transactions or to conclude any legal act. Before you make a decision based on this information, we recommend that you contact your advisor. Only those who are clearly aware of the risks of the transaction to be concluded and who are economically in a position to bear any losses should carry out investment transactions. RML Advisory assumes no liability for the content of this publication.