MONOGRAM

NEWSLETTER *February 2017*

The Monogram fund had a positive start to 2017 and was up 1.13%, net of fees, in January. The fund came into the month fully invested and all asset classes contributed to performance. The strongest performing asset in the portfolio was Gold, acting as a defensive hedge position. Our performance was also clearly helped by our positioning in US equities, which our models continued to prefer over Developed Ex-US and Emerging Market equities.

Table 1. Monogram Performance Attribution, January 2017

Asset Class	Weighting (%)	Perf. Attrib. (%)
Overall		**1.13**
Cash	**-**	**-0.03**
Bonds	**35**	**0.19**
Inv. Grade Bonds	17	0.07
High Yield Bonds	18	0.12
Equities	**-**	**0.40**
US Equities	50	0.40
Dev. ex-US Equities	-	-
EM Equities	-	-
Gold	**15**	**0.57**

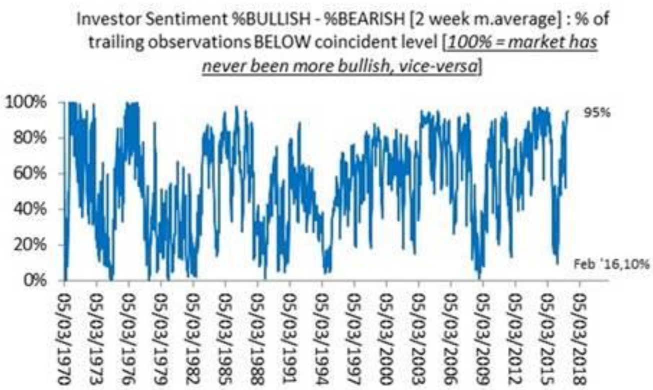
US Investment Grade Bonds had a positive month. Nonetheless, we are increasingly cautious at these levels as bonds remain sensitive to shifts in the rate cycle.

High Yield continues to maintain positive momentum with performance closing up 1%+ for the month of January. This was in part due to a c. 17% exposure to energy (Oil) of the HY index, which has seen a rebound following the Trump election - given his stance on US energy independence - and OPEC's 171st meeting in Vienna, where a deal was agreed among all 14 member countries to curtail oil production for the first time since 2008. The meeting confirmed that OPEC had secured a cut in oil production from 33.8 million barrels a day (b/d) to 32.5 million b/d in an effort to prop up prices. An increase in risk appetite and investor confidence (see chart 1) was also a driver.

US equities, as represented by the S&P 500, ended up 1.22% and are clearly in over-valued territory, yet investors are "paying for protection" by buying the "safest" equity market - the US.

In chart 1, we looked at a two-week moving average of the Bullish - Bearish ratio (of the Investors Intelligence Sentiments Survey) and its distribution for the last 46 years. The reading has been less bullish 95% of the time – we are in extreme high confidence territory, having been at the point of extreme bearishness in February of last year. The prevailing narrative is extraordinarily bullish, and that is always a bit of a concern, exacerbating the already over-valued US stock market.

Chart 1. Investor Sentiment



A large part of the euphoria that has been driving the US equity markets since Trump won the election has been based on the belief that his fiscal policies will stimulate US growth, increase inflation, and give the Fed room to raise interest rates. The question that investors must now ask themselves is how significant this stimulus can really be and how long it will take to implement. There is a risk that markets have overextended themselves on this hope.

General market commentary

2017 started with a generally positive tone with most risk assets continuing their upward trajectory. Sentiment remained generally supportive as the world awaited the inauguration of the new US president and watched his first days in office closely.

In equities, the generally positive momentum that started post the US election appears to be maintaining traction, with strong absolute and relative momentum signals still calling for a full allocation to equities. The 12-month return for US equities and Developed equities ex-US (USD hedged) was 21% and 11% respectively, up almost twofold from year end; while Emerging Market equities (USD hedged) were up 16% over the last 12 months.

January was a strong month for US equities with DJIA, S&P and Nasdaq all reaching new highs. At the same time, implied volatility (as measured by the VIX index) nearly touched an all-time low at 10.5. It was not only the post-election euphoria that pushed US indices higher - better than expected earnings from blue-chip stocks also played a role.

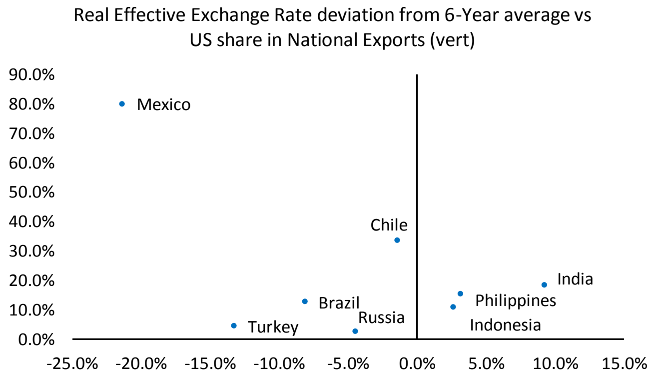
At one point during the month, European equities were also stronger and the FTSE 100 touched an all-time high around mid-month, but were unable to hold onto gains. Chinese equities, boosted by a stronger yuan and improving economic data, ended January on a high note ahead of Chinese New Year. The only major equity market that treaded water in January was the Nikkei.

With regards to Emerging Market equities, their positive performance can be attributed, to a large extend, to the recent USD weakness and the rise in the prices of metals and agricultural commodities. Yet, changes to the USD price and supply remain a dominant theme for the year ahead for Emerging Markets.

US trade policy, as the setter of the price and supply of USD for a global economy with record USD leverage, is key. A stronger USD increases the cost of Dollars to overseas borrowers, which, is particularly pertinent among some Emerging Market economies where levels of USD-denominated Debt (% of GDP) remains worrisome: Chile >60%, Turkey ~50% and Peru ~40% to name a few. A US tax amnesty will reduce the supply of Dollars to overseas borrowers while trade restrictions will add to the shortage of Dollars hitting export-orientated economies hardest.

With the prospect of a less open US trade policy and a stronger US Dollar, exposure to USD activity matters, particularly in the Emerging Market equity world.

Chart 2. Regional Exposure to Protectionist



With regards to bonds, the 10-year treasury market remain range bound with yields in the 2.2-2.5% range, but market consensus remains for a 3-3.5% yield towards the end of the year. European bonds fell the most in January as inflation levels came in higher than expected, with yields on Gilts, BTPs, and Bunds touching highs in January.

This may intensify the debate surrounding the European stimulus program in the coming months. As the US economy picks up speed, there is room for increased divergence in monetary policy between the US and the rest of the world. In fact, the interest rate differential between US and German 10 year bonds is the largest in nearly 20 years, edging the door open for potential carry.

To conclude, January has been dominated by political headlines, while economic data has been fairly robust (December PMI reached 52.7, its highest level since February 2014) and valuations elevated. These conflicting signals make it difficult for investors to understand what the implications could be for markets.

Such an environment is a perfect backdrop for medium-term, rules-based investment approaches like our momentum strategy as they take the emotion out of investing and reduce the need for interpretation.

The last 12-15 months were not favourable to momentum investing, and especially to funds, like ours, that do not take currency risk (some of the strongest momentum has been seen in currencies). However, periods of underperformance in the past have typically been followed by a reversion to strong performance. We remain dedicated to our approach and to providing our investors with strong risk-adjusted returns over the medium to long term.

Heading into February, we remain fully allocated into US equity, driven by robust absolute and relative momentum against the backdrop of elevated valuation, High Yield and Investment Grade Bonds, for the time being at least, and Gold, as a crisis hedge. We will respond accordingly as market conditions evolve.

About MONOGRAM

MONOGRAM Capital Management is an investment boutique founded in 2014 and headquartered in London. The management team has over 55 years of investment management experience, having met and worked together at Goldman Sachs before holding leading investment positions at other institutions.

We take an innovative empirical, evidence-based approach to investing and believe there are fundamental, identifiable, persistent, and exploitable sources of return; risk is the permanent impairment of capital (peak-to-trough drawdown) and not volatility in its various forms.

There are two options for investors to access MONOGRAM's investment strategy. Investors can invest in the Luxembourg Domiciled MONOGRAM Fund or in MONOGRAM's bespoke segregated managed account, provided the investors meet the minimum subscription requirements. Further details are contained in the subscription documents to the fund.

For further information on MONOGRAM or to invest, please contact Milena Ivanova on milena.ivanova@monograminvest.com or +44 (0)7931 776206.