NEWSLETTER

A Review of 2018, so far…

September 2018

Market overview.

The MONOGRAM fund returned 1.6% in August, bringing the 2018 year-to-date (YTD) net return to +0.5%.

During the month, US Equities (S&P 500) were up +3.3% while Non-US Developed Equities (MSCI EAFE Index) and Emerging Market Equities (MSCI EM) were down -1.4% and -1.8% respectively. US Investment Grade Bonds and US High Yield Bonds each gained +0.7% while Gold continued its losing streak and was down -1.3%.

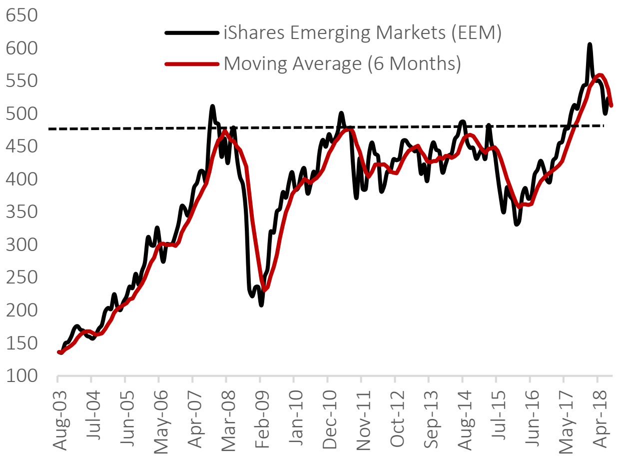
Year-to-Date in Review.

At the beginning of 2018, Momentum signals were strongly positive favouring allocations to Emerging Markets, Japan and US Equities. Thus, we began the year with a moderately aggressive positioning in Equities combined with holdings in High Yield, Investment Grade Bonds, and Gold.

While we held these positions through the first five months of the year (ref. Table 1), we implemented one notable modification. Although we kept our exposure to High Yield (HY), we gradually moved away into a low-duration vehicle. The US stimulus package in conjunction with tax reform provided tailwinds for HY. However, the appointment of Jerome Powell as Chairman of the Federal Reserve (Fed) led the market to anticipate a more hawkish trajectory for the rate of normalisation (in the US base rate) thus raising interest rate risk. By moving to short duration HY we not only mitigated some of the risks posed by rising rates but also increased our chances of generating alpha[1] due to overcrowding in the mid-term duration HY Bonds.

In June, the portfolio transitioned to a more defensive stance as we exited the position in Emerging Market (EM) Equities. EMs have suffered both geopolitical and technical hurdles attributed to the ensuing "trade war", the collapse in the Turkish Lira and the threat of contagion particularly for EMs with high levels of USD dominated debt. From a technical standpoint, the hurdle can be interpreted as testing a long-term breakout as indicated by the dotted line in Figure 1.

Figure 1: Emerging Market Equities Long-Term Breakout



Source: Thomson Reuters.

Should EM remain above the hurdle (dotted line), it could prove a bullish indicator for EM, yet the 15% fall since the January peak has commentators pointing to the onset of a full bear market. It is reassuring from our perspective, that our strategy favours a more defensive stance by holding US Equities.

Our Momentum signal for Gold turned negative at the end of June causing us to exit the Gold position at the beginning of July. The weakness of Gold continues to surprise many commentators, with global

[1] The popularity of Exchange Traded Funds (ETFs) - which typically target a duration of 4-6 year - as an instrument for gaining access to High Yield has led to an orphaned market in the Ultra-to-Low duration maturity spectrum. Thereby increasing the opportunities for generating alpha in short duration High Yield.

geopolitical risk so prominent. Yet we can offer a straightforward justification for this in rising short-term dollar yields offering a safe harbour alternative.

Lastly, our indicators suggested moving into Cash in July and we have maintained a 25% position since, having held 0% earlier in the year. Switching to Cash at appropriate times is increasingly being seen as a cost-effective portfolio protection device by both finance academics and practitioners. Although described as Cash, this is held in an interest bearing instrument yielding c. 2% for the portfolio.

Table 1: Historical Allocation Year-to-Date.

	Aug-18	Jul-18	Jun-18	May-18
Cash	25.0%	25.0%	0.0%	0.0%
Investment Grade Bonds	13.0%	13.0%	18.0%	18.0%
High Yield Bonds	12.0%	12.0%	17.0%	17.0%
US Equities	50.0%	50.0%	50.0%	12.5%
Dev World Ex-US Equities	0.0%	0.0%	0.0%	12.5%
Emerging Market Equities	0.0%	0.0%	0.0%	25.0%
Gold	0.0%	0.0%	15.0%	15.0%

	Apr-18	Mar-18	Feb-18	Jan-18
Cash	0.0%	0.0%	0.0%	0.0%
Investment Grade Bonds	18.0%	18.0%	18.0%	18.0%
High Yield Bonds	17.0%	17.0%	17.0%	17.0%
US Equities	12.5%	25.0%	25.0%	25.0%
Dev World Ex-US Equities	12.5%	12.5%	12.5%	12.5%
Emerging Market Equities	25.0%	12.5%	12.5%	12.5%
Gold	15.0%	15.0%	15.0%	15.0%

Source: MONOGRAM Capital Management

Looking Ahead.

As our regular readers know, our systematic Dual Momentum strategy is guided by the strength of Momentum signals, and through the year we have observed a decline in Momentum across assets from an average of 15% during January's high to 5% in August (Ref. Table 2). Of course, the idea of an 'average' here could be rather misleading since it is the strength of the Momentum measure for the individual asset classes that really matters for portfolio construction.

Table 2: Momentum

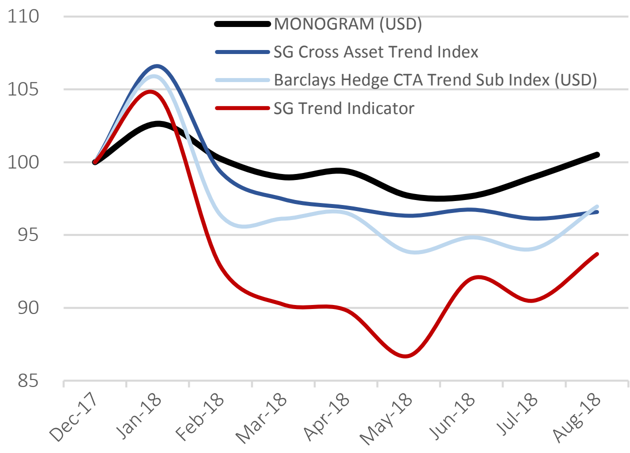
	Momentum Signal (31-Aug-18)	Momentum Signal (31-Jan-18)
Cash	2%	1%
Investment Grade Bonds	0%	2%
High Yield	3%	6%
US Equities	19%	27%
EU Equities	7%	16%
Asia ex-Jap Equities	8%	17%
Japan Equities	10%	24%
Emerging Market Equities	3%	32%
Gold	-9%	10%
Average	5%	15%

Source: Thomson Reuters.

Could this fall in broad measured Momentum spell the end of the current bull market? This is not something our strategy asks us to speculate on, so we will refrain from doing so.

The decline in Momentum coupled with raised levels of volatility posed challenges for trend following strategies (Ref. Figure 2).

Figure 2: Cumulative Performance Year-to-Date in Trend Following and Momentum Strategies.



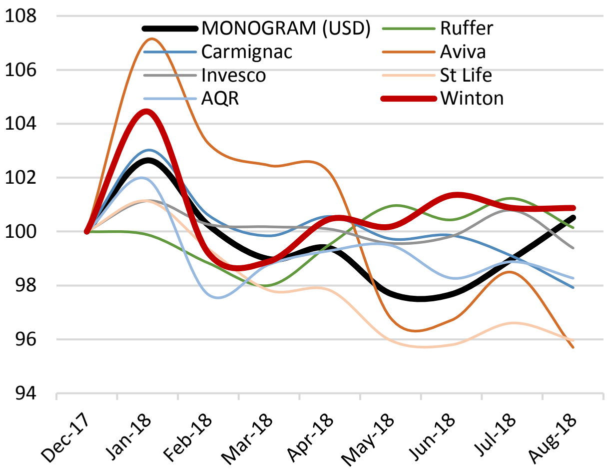
Source: MONOGRAM, Thomson Reuters, Bloomberg and Barclay Hedge CTA website[2]; As of 31st August 2018.

Although, there is clear decline in the strength of the signals through the year, Momentum remains positive and most recently experienced an uptick in regional equity pockets, namely, US, European and Japanese Equities, which could provide a favourable environment for our strategy in the months to come. Finally, as can be seen in Figure 3, the MONOGRAM fund also held up well against its peers coming

[2] www.barclayhedge.com/research/indices/calyon/Newedge_Trend_Following_Index.html

second to Winton, confirming, in our view, the underlying structure of the strategy.

Figure 3: Peer Group[3] Cumulative Performance Year-to-Date.



Source: MONOGRAM, Thomson Reuters, as of 31st August 2018.

Portfolio positioning.

For the month of September, our indicators favour maintaining significant positions in US Equities and Cash, and smaller allocations to US Investment Grade Bonds and US Short Duration High Yield Bonds.

About MONOGRAM

MONOGRAM Capital Management is an investment boutique founded in 2014 and headquartered in London. 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 available on request.

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

[3] Ruffer TR International I Cap USD (LU0638558550); Invesco Perpetual Global Targeted Returns A ACC USD Hedged (LU1004132723); Carmignac Patrimoine A USD ACC USD Hedged (LU1299305786); Aviva Investors Multi-Strategy Target Return Fund I USD (LU1074209831); Standard Life Investments Global Absolute Return Strategies A Acc USD Hedged (LU0548154680); AQR Risk Parity Fund I USD (US00203H8262); The Winton Tranche B USD (VGG971821936).