RPM EVOLVING YEARLY PERFORMANCE *review* 2022.

RPM investments
DIFFERENT MOVES.

RPM Risk & Portfolio Management AB

2022 was marked by extreme inflation, rapidly rising interest rates, and the war in Ukraine, triggering heavy losses across financial markets. However, whereas global stocks experienced their worst year since the 2008 Great Financial Crisis (GFC) and the fourth worst year on record (as measured by the MSCI World TR Index), CTAs had their best year since the GFC, generating significant crisis alpha. The RPM Evolving CTA Fund delivered stellar performance mainly profiting from bearish trends in fixed income. In fact, 2022 was the best year since its inception, with the fund outperforming benchmarks. Performance was largely positive across managers and substrategies, but overall, faster systems outperformed, especially during the more volatile, rather directionless, second half of the year.

This year, we expect that the global economic slowdown will continue, although less dramatically than in 2022, with the US entering a 'mild' recession. However, as inflation is expected to remain an issue for most of 2023, interest rates are likely to remain high which poses a major downside risk to the soft landing scenario with regards to leverage and liquidity. The outlook for CTA performance remains positive though as the two main arguments for a favorable trading environment (climate change, deglobalization) remain intact. Higher interest rates and the fight against inflation should also continue to provide tailwinds for CTAs.

A WORD FROM OUR CEO

Damned if you do and damned if you do not! Emotionally, it is not easy being a CTA specialist investor. More than half of the time you must explain why trend following is not dead. Then, when Managed Futures finally generate über-performance you cannot be too cheerful either as everybody else typically feels miserable.

A quick reminder: Trend following generates profits when prices move substantially and sustainably in many different markets at the same time. In 2022, this was true once again:

- Market moves tend to be more pronounced in times of crisis. Last year saw many financial markets entering crisis mode, most notably in stocks and bonds. A major part of CTA returns stemmed from being short bonds, rebutting the long standing argument that “CTAs can only make money being long bonds”.
- Trends tend to be more long-lived if they are driven by changes in the underlying fundamentals. With central banks abandoning their ultra-loose monetary policies and instead engaging in unprecedented monetary tightening, the underlying fundamentals did indeed change quite significantly.

Hence, 2022 was the best year for the RPM Evolving CTA Fund since its inception in 2013 and we are not ashamed to say that we are proud if this.

Going forward, we believe the trendless market environment we have seen between the end of the GFC in 2008 and the GCC in 2020, is over for good. Inflation, rapidly rising interest rates, looming recession, geopolitical uncertainty, covid-19 pandemic, war in Europe, climate crisis, energy crisis etc., have all contributed to a new, unpredictable market environment. Gone are the days when central banks could ride to the rescue, injecting ever more liquidity into markets, and nipping (bearish) market moves in the butt. Today, policy makers must refocus on their core task (inflation) which allows for market trends to develop more freely. Given the major changes going on in the world, we are quite optimistic with regards to performance. Now more than ever, CTAs should be a part of a diversified investment portfolio.

- Mikael Stenbom, Founder and CEO

1. MAIN DRIVERS OF CTA PERFORMANCE IN 2022

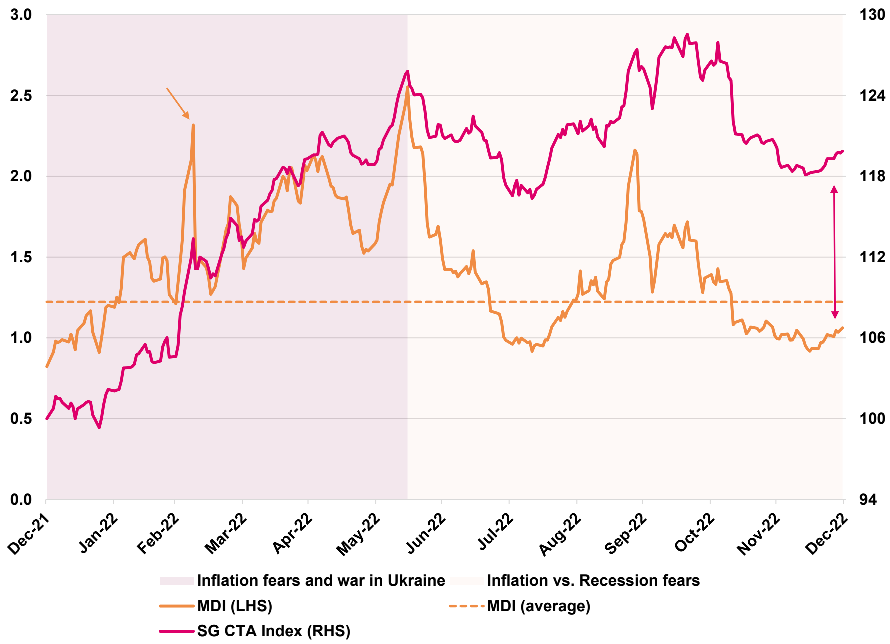
The CTA universe is dominated by diversified systematic trend following managers exploiting time series momentum (TSMOM). In other words, most CTAs are trend followers generating profits in a trending market environment, i.e., when asset prices move substantially and sustainably in many different markets at the same time. Figure 1 shows RPM's measure of TSMOM, i.e., the Market Divergence Indicator (MDI), its 30-year average level, and the SG CTA Index in 2022.[1]

In 2022, CTAs provided well-needed positive performance, mainly due to being short bonds, in an environment of tumbling markets defined by red hot inflation, rising interest rates, and war.

From a CTA perspective, the trading year can be divided into two subperiods, i.e.

FIGURE 1

SG CTA Index and MDI in 2022, daily data.
Sources: Bloomberg, Barclay Hedge



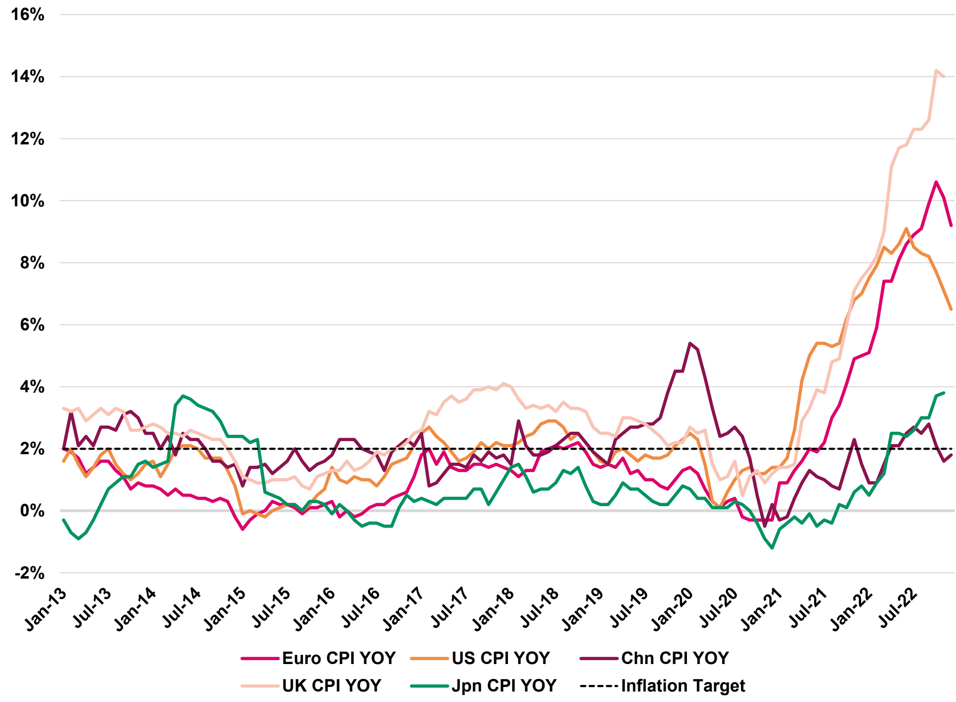
1. **MDI and CTA performance going up in tandem:** Between Jan-22 and Jun-22, markets were dominated by inflation fears and central banks' aggressive hiking which triggered major selloffs across financial markets. CTAs were able to exploit and significantly profit from these moves, especially in fixed income. By mid-June, stocks had entered bear market territory and the MDI had reached its highest level for the year. Russia's full-blown invasion of Ukraine on February 24th added fuel to the fire reinforcing already existing market trends, especially in commodities. Accordingly, the MDI temporarily shot up (arrow). So did CTA performance.

2. **MDI coming down, but CTA performance not:** During the second half of the year, inflation remained uncomfortably high and central banks continued raising rates aggressively despite weaker-than-expected economic statistics. As a result, recession fears at times outweighed inflation worries, which would shape the market environment for the remainder of 2022. As markets constantly fluctuated between the two narratives, the MDI slumped and rebounded, occasionally dropping below its long-term average level. However, although CTA performance was clearly affected by these swings, overall, managers were able to hold on to most of the gains made in the first half of the year (double arrow).

1. The MDI measures overall "trendiness" of financial and commodity futures markets by correlating the price-changes and the underlying volatilities of 70+ futures markets across all sectors and across multiple time frames. The SG CTA Index is equal-weighted and reconstituted annually and has become recognized as a key Managed Futures performance benchmark. The index calculates the net daily rate of return for a pool of CTAs selected from the largest managers open to new investment. The long-term correlation between the MDI and CTA performance (as measured by the SG CTA Index) is around 0.8.

FIGURE 2

Selected CPIs 10YTD, monthly data.
Source: Bloomberg



INFLATION FEARS AND CENTRAL BANK ACTION

Last year, as inflation turned out to be far from 'transitory', CPIs around the world reached levels not seen in 40 years. In the UK and the eurozone, inflation soared to double-digit levels (see Figure 2). As a result, central banks were forced to react swiftly and strongly increasing target rates aggressively throughout the year (see Figure 3). For example, in 2022H2, the Fed conducted four 75bps rate hikes in a row, an unprecedented level of monetary tightening previously unfathomable.

Hence, inflation fears and central bank policies totally dominated market action in 2022. Everything else, even the war in Ukraine, was secondary. As can be seen in Figure 4, the waxing and waning of trends in fixed income outshone all other markets and sectors, disregarding a brief spike in the commodities MDI following the invasion of Ukraine (arrow).

FIGURE 3

Selected target rates 10YTD, daily data.
Source: Bloomberg

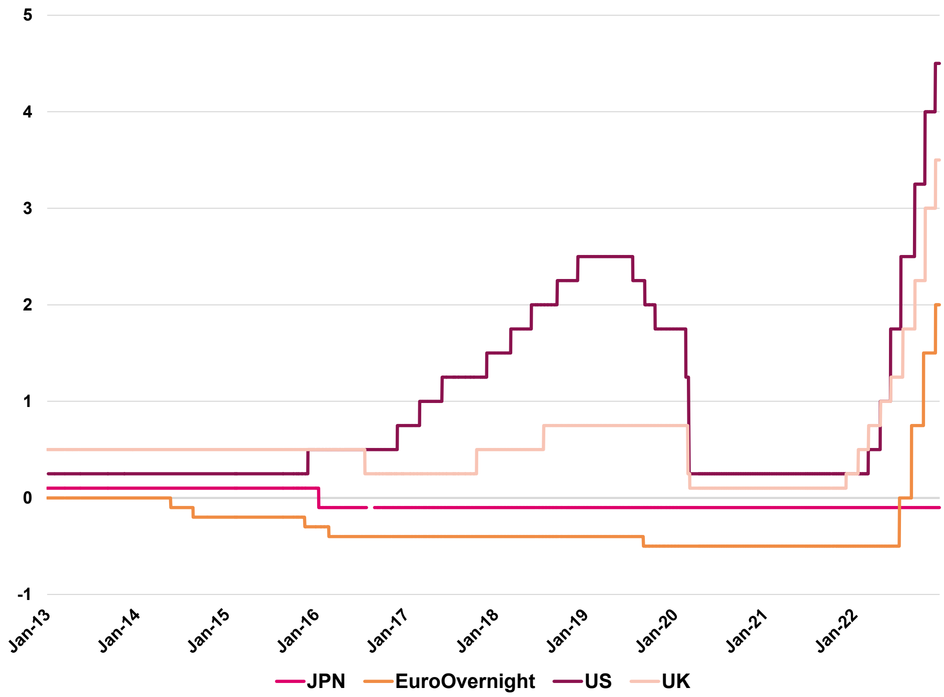


FIGURE 4

Sector MDIs YTD, daily data. Source: Bloomberg

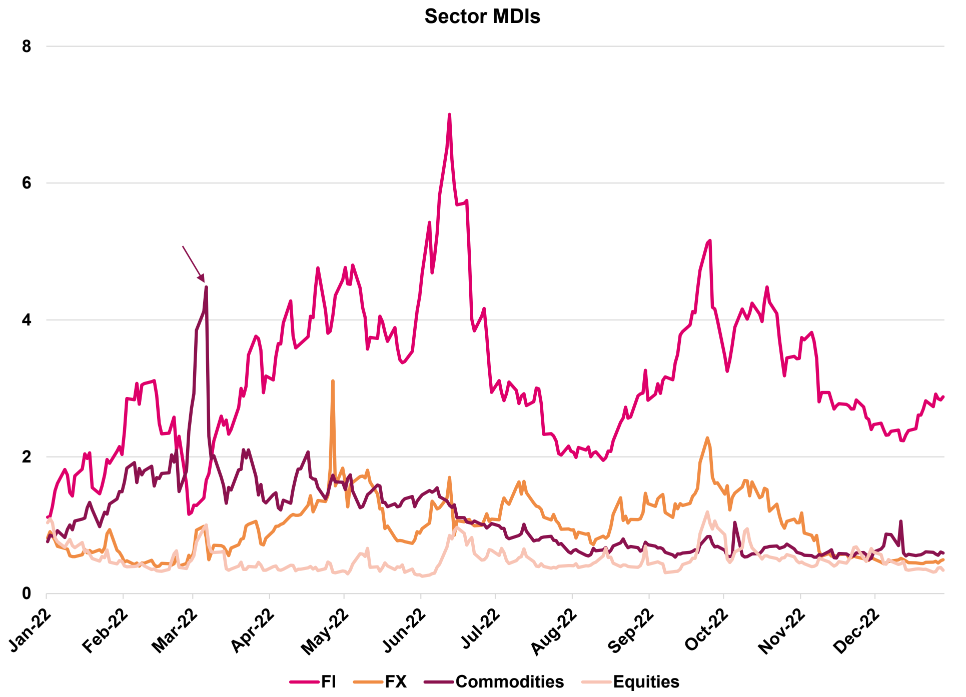
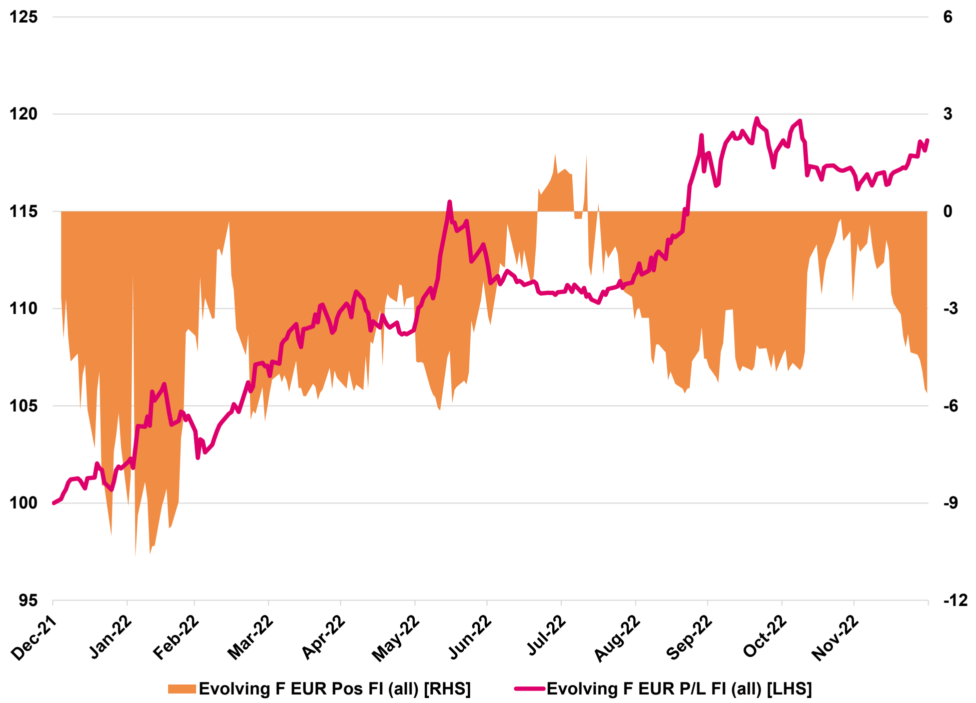


FIGURE 5

Evolving F EUR overall fixed income exposure and performance in 2022, daily data. Source: RPM



HATE TO SAY I TOLD YOU SO: CTAS PROFITING FROM SHORT BONDS EXPOSURE

Figure 5 shows RPM Evolving's overall position (underlying value/NAV) and performance in all fixed income markets on aggregate in 2022. **As can be seen, except for a short period during the summer when market participants briefly worried more about recession than inflation, the portfolio was short bonds and short short-term interest rates throughout the year and, in contrast to often-heard preconceptions, CTAs were able to generate significant returns from this.**[2] In fact, just like in 2019 but vice versa, fixed income was by far the most important and most profitable sector for CTAs last year.

FIGURE 6

US dollar trade-weighted index (broad), Evolving F EUR overall FX performance and US dollar position in 2022, daily data. Source: RPM, Bloomberg

FX: FED VS. THE WORLD

Figure 6 shows the broad US dollar trade-weighted index, RPM Evolving's currency sector P/L, and overall dollar position in 2022. Obviously, extremely high inflation and quickly rising interest rates also affected currency markets. However, trends in FX were less pronounced and less stable than trends in FI. During the first three quarters, the Fed was more hawkish than other major central banks and, thus, the US dollar appreciated substantially, reaching a 20-year high by the end of the third quarter. However, in 2022Q4, the dollar reversed forcefully losing ground against its major counterparts. This was due to lower-than-expected inflation in the US and with other central banks, first and foremost the ECB, starting to raise rates themselves. **As can be seen, the upward trend in the dollar was quite wobbly and, thus, the according long position less stable than abovementioned short bond exposure.** Towards year-end, the portfolio even turned net short. Overall, CTAs managed to generate positive performance in FX but significantly less than in FI.

2. Many (academic) studies had made this point in the past that CTA performance was not only based on a 30-year bond rally, but that Managed Futures would also be able to profit from a pronounced bond selloff once it occurred, e.g., Hamill, Rattray, and van Hemert (SSRN, Aug-16): Trend Following: Equity and Bond Crisis Alpha; RPM Educational #5 (Oct-17): CTAs – A Story of Long Bonds?; Asif, Frömmel, and Mende (Int'l Review of Financial Analysis, Mar-22): The Crisis Alpha of Managed Futures: Myth or Reality?

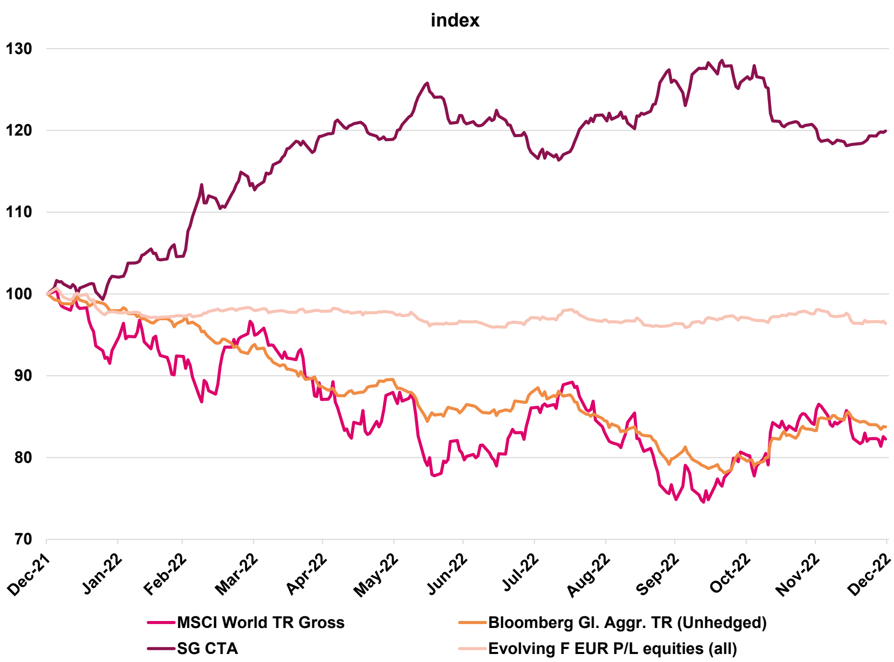
EQUITIES: THE RETURN OF CRISIS ALPHA

Figure 7 shows 2022 performance of global equities by means of the MSCI World TR Index, global bonds by means of the Bloomberg Global Aggregate TR Index, CTAs by means of the SocGen CTA Index, and CTAs' performance in stock indices by means of RPM Evolving's equity sector P/L. **In early 2022, due to stubbornly high inflation, (expected) interest rate rises, the escalating war in Ukraine, and other (geopolitical) uncertainties, global equity markets entered crisis mode and stayed there for most of the year, officially entering bear market territory in Jun-22. This was the first prolonged crisis for equities since the GFC and the fourth worst year for stocks since the inception of the MSCI.**

To add insult to injury, this time around fixed income markets offered no protection whatsoever. Just like stocks, bonds experienced a crisis and a major selloff. Indeed, 2022 was the worst year on record for global bond markets. The FT (2022-12-30) estimates that global stocks and bonds lost more than BUSD 30,000 in a "brutal" 2022. CTAs on the other hand generated strong performance providing significant crisis alpha. This was not achieved by being short stocks (or long bonds for that matter). In fact, CTAs lost money in the indices. Although losses were quite limited, equities was the worst performing sector last year.

FIGURE 7

MSCI World Total Return Gross Index, Bloomberg Global Aggregate Total Return Index Value Unhedged, SG CTA Index, and Evolving F EUR equities sector performance in 2022, daily data. Source: RPM, Barclay Hedge, Bloomberg

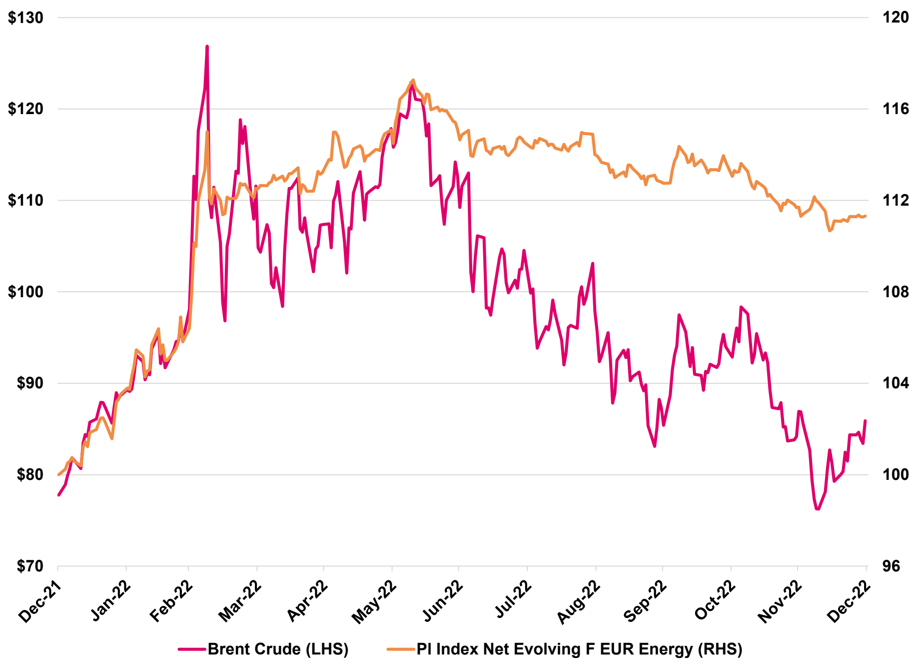


ENERGIES ON STEROIDS IN 2022Q1

Obviously, the war in Ukraine had some effect on markets, first and foremost energies. Figure 8 shows the price of crude oil and RPM's overall performance in the energy sector in 2022. **In Q1, energy prices soared as escalating tensions between Ukraine and Russia turned into all-out war.**[3] This upward trend continued although with less momentum until Jun-22. In the second half of the year, as the fortunes of war seemed to shift, oil prices reversed, moving lower in volatile trading amid concerns that a slowdown in the big economies would weaken global fuel demand. Overall, CTA managers profited significantly from these moves, making energies the second most profitable sector in 2022, only suffering moderate give-back losses when trends went into reverse.

FIGURE 8

Brent crude oil and Evolving F EUR P/L in the energy sector in 2022, daily data.
Source: RPM, Bloomberg



MARKET SUMMARY QUARTER BY QUARTER

In the first quarter of 2022, CTAs delivered strong performance mainly due to an ever-worsening global bond selloff amid expectations of faster monetary policy tightening and soaring energy prices amid the outbreak of full-scale war in Ukraine respectively.

In 2022Q2, performance was positive as well amid continuing trends in a market environment characterized by geopolitical uncertainty and dominated by inflation fears and aggressive rate hikes. However, towards the end of the quarter, trends started to reverse as inflation worries gave way to recession fears amid weaker-than-expected economic data.

The third quarter started out with losses, mainly in FI, as recession fears took center stage. **Nevertheless, CTAs ended the quarter in positive territory due to strong performance in Sep-22 on the back of profits in currencies and bonds as other major central banks followed the Fed in raising rates to curb inflation.**

In the fourth quarter, CTA benchmarks were down as markets reversed forcefully in Nov-22 after cooler-than-expected inflation data had raised hopes of less aggressive rate rises going forward. However, these hopes were dashed a month later when central banks continued hiking and kept warning of further increases to come despite somewhat decreasing CPIs.

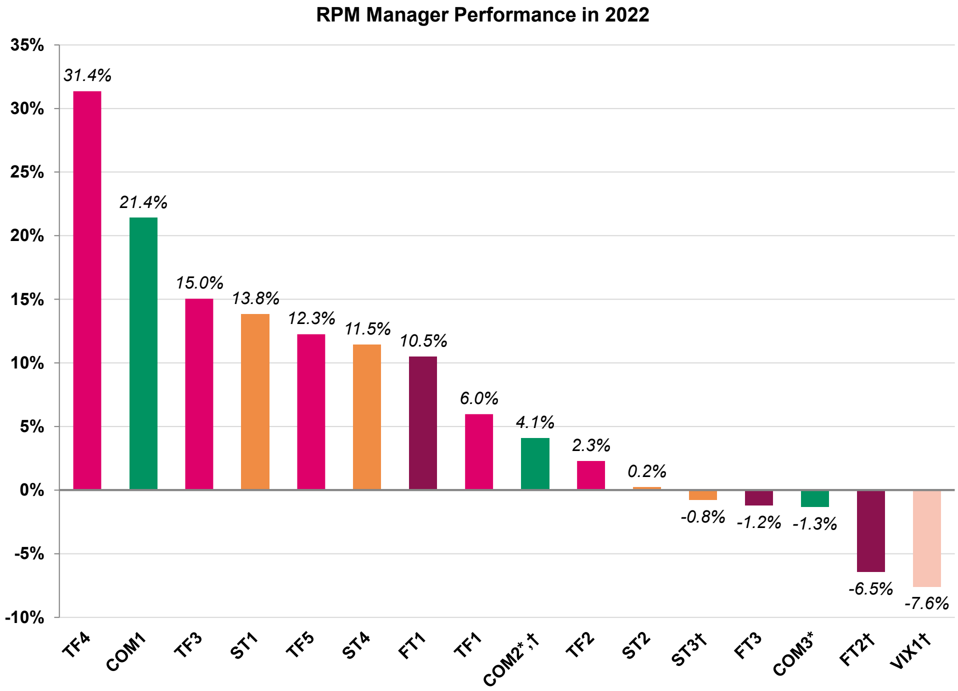
3. Of course, prices in other affected commodity markets such as grains also jumped but trends were less pronounced and less stable than those in the energy sector.

2. RPM EVOLVING FUND-SPECIFIC COMMENTS

The RPM Evolving CTA Fund is built on RPM's 25+ years of experience as a CTA investor. RPM Evolving focuses on CTAs in the so-called "evolving phase". Typically, these CTAs have two to seven years of track record with MUSD 20 to MUSD 500 in AUM. Historically, this has proven to be the most attractive period for CTA managers from a risk/return perspective. RPM Evolving runs at a long-term target of 13% annual volatility. The Fund currently consists of twelve managers with an expected annual turnover of 2-3 managers.

FIGURE 9

Managers' absolute performance in 2022, yearly data; managers that were opened during the year are marked with "*" and managers that were closed in 2022 are marked with "†". Source: RPM



MANAGER SELECTION AND STRATEGY ALLOCATION

In 2022, RPM Evolving allocated to 16 different CTAs. Conceptually, a core group of trend following managers is balanced with a set of diversifying strategies. A diversifying strategy can be purely technical as well such as short-term or VIX trading or primarily fundamental (global macro or commodity-only) in nature.

Last year, RPM added two and closed three managers. New programs consist of two systematic commodity-only strategies, i.e., one with a multi-strategy approach to trading agricultural commodities and the other with a relative value approach to trading a broad basket of commodity markets.[4]

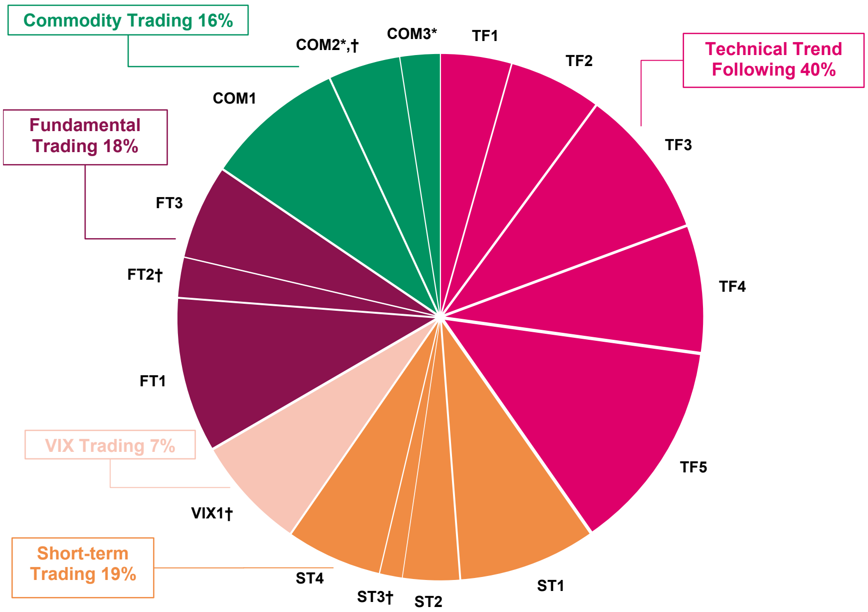
Out of the currently twelve managers in the RPM Evolving CTA Fund, seven are purely technical managers that use price data as the main input factor to their investment process. Two of them apply medium- to long-term trend following techniques diversified across many different markets. Three managers systematically combine trend following and shorter-term mean-reversion strategies as well as fundamental filters. Two managers are pure short-term traders, one breakout and one intraday. Regarding the remaining five managers, four use a systematic fundamental investment process, i.e., two with a global macro focus (with different trading horizons) and the other two solely focusing on commodity markets, one on energies and one on agriculturals. Finally, one contrarian strategy is trying to identify market turning points by applying a non-price-based participation indicator.

4. The latter was closed again in Nov-22 as the portfolio manager in charge of the program decided to leave the CTA in question.

RPM actively allocates between managers in response to perceived market opportunities and risks. Overall, performance was mixed across managers and substrategies with trend following managers generating positive returns across the board (see Figure 9). On aggregate, all (active) RPM substrategy indices ended the year in positive territory. The allocation to trend fluctuated significantly throughout the year. The strategy's overall average allocation of 40% is somewhat below its long-term target level of 50% though (see Figure 10). This is mainly due to incoming new commodity-only programs while keeping allocations to fundamental and short-term trading managers stable during the course of the year.[5]

FIGURE 10

Average time-weighted manager and substrategy USD and risk allocation in RPM Evolving during 2022, managers that were opened during the year are marked with "*" and managers that were closed in 2022 are marked with "†". Source: RPM

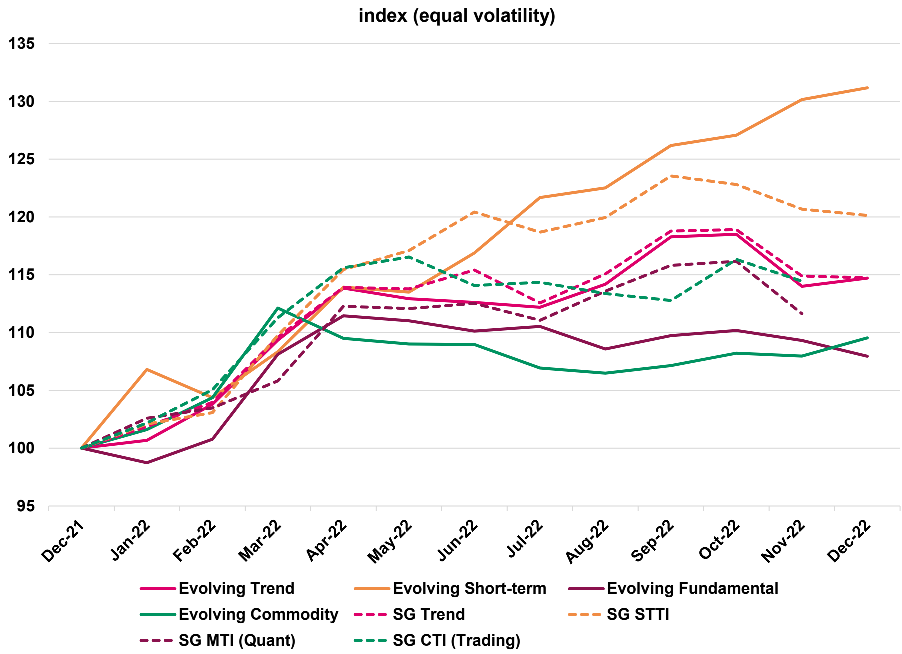


Regarding aggregate substrategy performance, on a volatility-adjusted basis, short-term trading was the best performing strategy in 2022, handling the sometimes wild market swings better than other strategy groups, especially in the second half of the year (see Figure 11). Furthermore, RPM Evolving short-term traders outperformed the SG STTI benchmark significantly on a volatility-adjusted basis. RPM trend followers were also strong generating double-digit returns on aggregate and performing in line with the SG Trend index (volatility-adjusted). RPM fundamental and commodity-only managers were also up, but slightly underperforming their respective benchmarks as of Nov-22 (volatility-adjusted).

5. The last remaining VIX trader was closed in Mar-22. While there are currently no volatility traders in the portfolio, the substrategy itself has not been retired.

FIGURE 11

Active RPM substrategy indices vs. SG benchmark indices in 2022, monthly data, vol-adjusted.
Source: RPM, SocGen



SECTOR PERFORMANCE AND RISK ADJUSTMENTS

In 2022, RPM Evolving F EUR was up 23.4% mainly due to gains in fixed income and energies whereas equities weighed on overall performance.

RPM monitors market and position data daily and responds to risk and opportunities as they occur. Because RPM utilizes separately managed accounts (SMA), portfolio adjustments can be made quickly when necessary. Compared to fund-of-funds without access to position data and daily liquidity, SMAs provide an opportunity for RPM to add value more than what can be made from manager selection and static allocations alone.

In 2022, RPM conducted three vertical risk adjustments or tactical asset allocations (TAA), i.e., a risk increase carried over from 2021, a risk reduction between mid-March and early June, and another risk decrease from mid-October to late November (see Figure 13). In Oct-21, overall portfolio risk was increased by approximately 10% as the newly developed MDI/MSGARCH opportunity indicator had signaled an upcoming market environment with higher TSMOM.[6]

On February 21st, this TAA was closed due to increased coordinated market selloff risk (CoMaSe, another RPM indicator developed inhouse). **Whereas the risk increase had subtracted value the previous year, in 2022, it added 233bps to overall performance and, thus, a total of 99bps over the whole life of the TAA.**

Due to abovementioned elevated CoMaSe risk, target risk was reduced to 90% shortly after on March 15th. **This TAA risk decrease was closed on June 3rd after having breached its stop loss level and having subtracted 41bps from overall performance.**

On October 20th, target risk was reduced once again by roughly 10% due to elevated portfolio risk levels and increased selloff risk. **After CoMaSe and portfolio risks had come down again, this tactical risk decrease was closed at month-end in Nov-22 having added a total of 93bps to overall performance.**

Overall, in 2022, TAAs added a total of 285bps to RPM Evolving's performance.

6. Financial data trendiness – just like financial data volatility – can be modelled by ARCH and GARCH which are able to capture the volatility clustering and leptokurtosis of the underlying time series. The MDI/MSGARCH opportunity indicator applies a 2-state Markov Switching GARCH model to the MDI and comes up with the probability of the MDI switching from State 1 (low MDI volatility) to State 2 (high MDI volatility) or vice versa.

FIGURE 12

RPM Evolving F EUR performance attributions by sector in 2022
Source: RPM

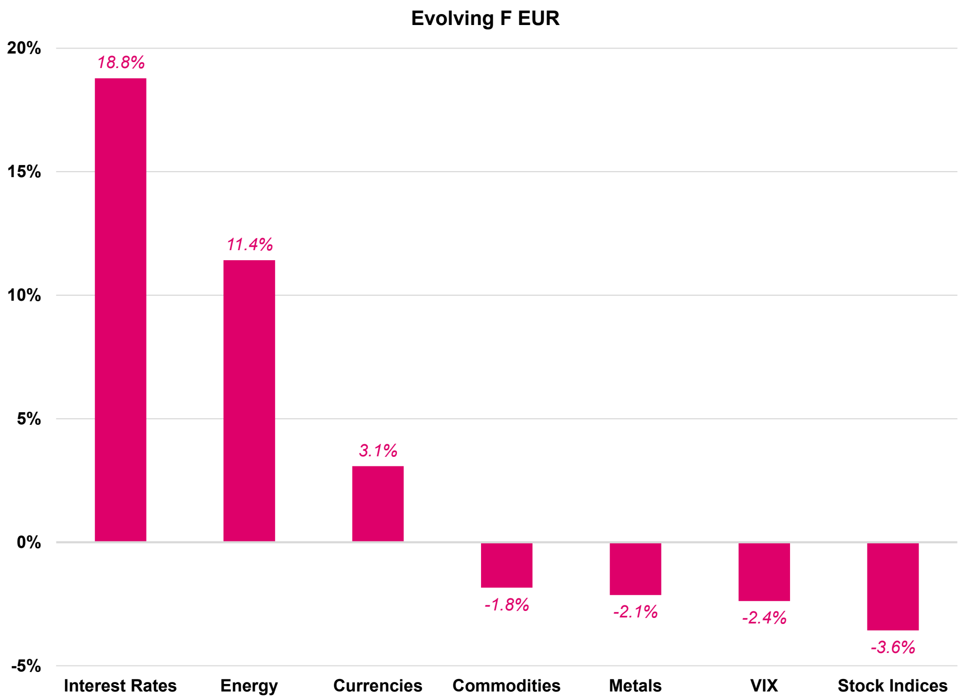
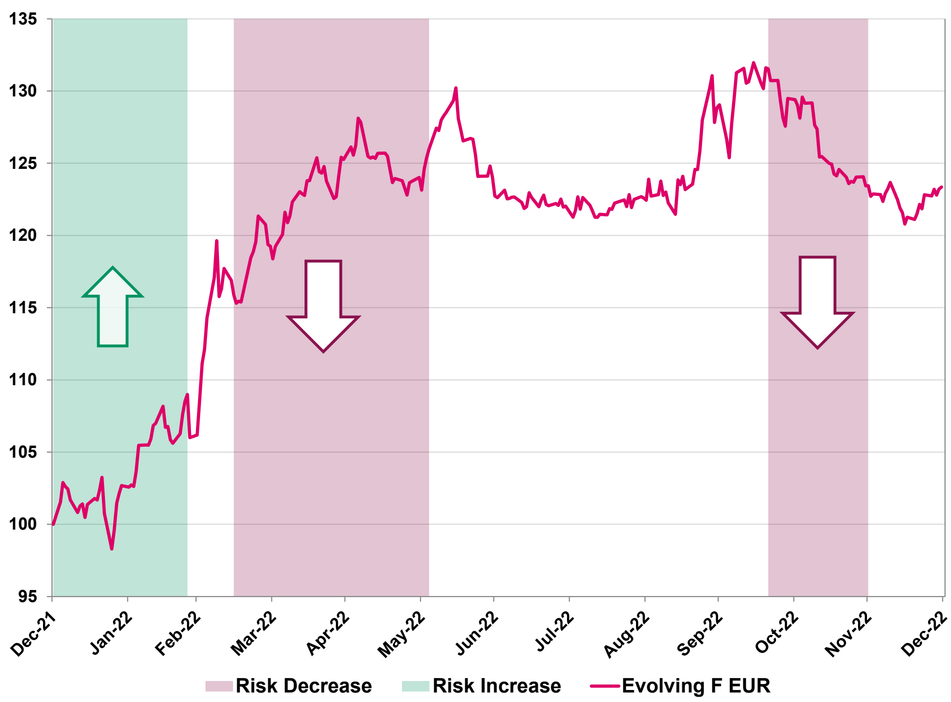


FIGURE 13

RPM Evolving F EUR risk increases and decreases in 2022, daily data.
Source: RPM



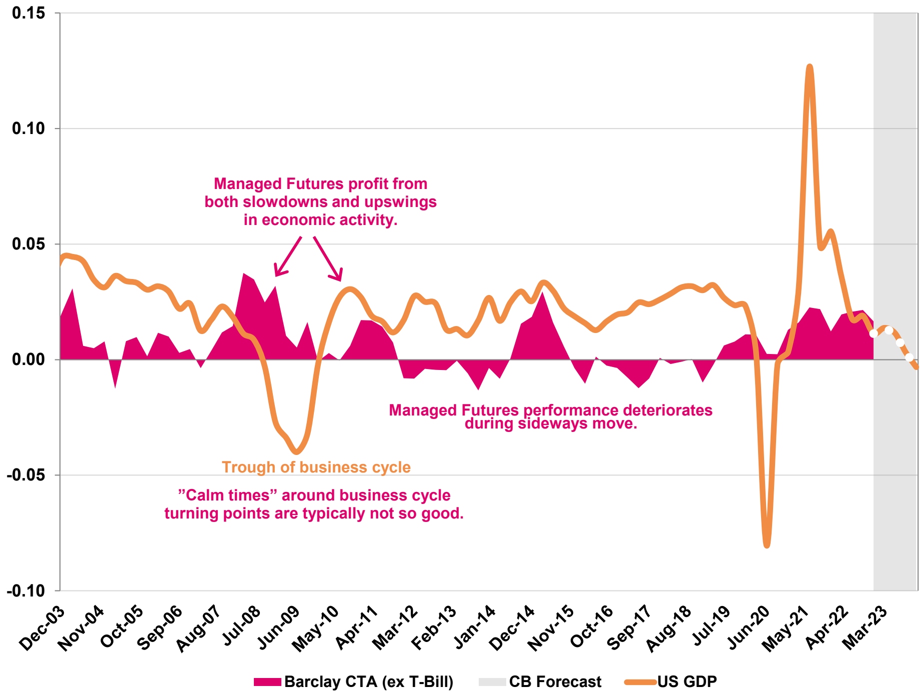
3 OUTLOOK FOR 2022

Managed Futures profit from both large upswings and slowdowns in economic activity. Furthermore, during (extended) financial market crises, CTAs tend to outperform other investment styles delivering so-called 'crisis alpha'. However, periods around business cycle turning points are typically less attractive from a return perspective.

As the post-pandemic recovery had run out of steam by mid-2021, the subsequent slowdown gained substantial momentum in 2022 with CTA performance picking up accordingly (see Figure 14). As global stock and bond markets entered crisis mode, CTAs generated their best performance since the GFC delivering significant crisis alpha. In fact, some CTA benchmarks produced their best yearly returns to date.

FIGURE 14

CTA performance (4-quarter rolling average of Barclay CTA Index minus the risk-free rate) and the US business cycle (in terms of 4-quarter rolling GDP annualized growth rates), quarterly data. 2022Q4 value is the GDPNow model forecast for real GDP growth (seasonally adjusted annualized rate) from January 5th, 2023, as provided by the Atlanta Fed. 2023 quarterly forecasts are taken from the Conference Board US Economic Outlook, 2020-2024 (as of December 14th, 2022, seasonal adjusted annualized rates). Sources: Barclay Hedge, Bloomberg, Federal Reserve Bank of Atlanta, and the Conference Board.



Regarding the outlook for 2023, there is broad consensus that global economic activity will continue to slow further as the effects of high inflation and rising rates are felt. The only question is by how much? The baseline scenario seems to be the following:

1. Economies in Europe, especially the UK, are likely to contract significantly as central banks there are forced to raise rates further than elsewhere (CE, 2022-12-19).
2. Regarding the US economy, opinions fluctuate between "narrowly avoiding recession" (GS, 2022-11-16), "treading water" (MS, 2022-11-22), and entering a "mild recession" (CE, 2022-12-19).[7]
3. The rest of the world is expected to recover modestly (MS, 2022-11-22) including a "bumpy reopening in China" (GS, 2022-11-16).

However, there is a major downside risk to this soft landing scenario (FT, 2022-12-19). As the 30-year period of falling bond yields has come to an end and inflation is back on the agenda and will remain there for most of 2023 (CI, 2022-12-31), central banks can no longer just ride to the rescue and inject (unlimited) liquidity into the market. Given that there is still significant leverage in the financial system with rates rising as quickly as they have and for as long as expected, liquidity and credit issues could come to the forefront triggering a financial crisis like the LDI blowup in the UK in Sep-22, only felt globally.

Regarding CTA performance, the outlook remains positive although less exalted than last year. In the long run, the two main arguments for a favorable trading environment remain intact, i.e., the impact of climate change and the transition to sustainable energy sources as well as the deglobalization of the world economy. In the short run, current themes, i.e., (the fight against) inflation, the war in Ukraine and other geopolitical tensions, and even Covid (after China's uncontrolled abandoning of its zero-Covid policy), will continue to drive markets and create trends, although probably less dramatic than last year. Furthermore, interest rates are now at levels last seen 15 years ago, which should provide some tailwind for CTAs going forward. **That being said, if financial markets were to see an escalation of the crisis, 2022 could easily repeat itself CTA performance-wise.**

7. 'Mild recession' sounds a bit like the 2021 catchphrase of 'transitory inflation', doesn't it?

4 PERFORMANCE STATISTICS 2022

FIGURE 15

RPM Evolving F EUR vs CTA benchmarks (in EUR) in 2022, monthly data.
Source: Barclay Hedge, RPM

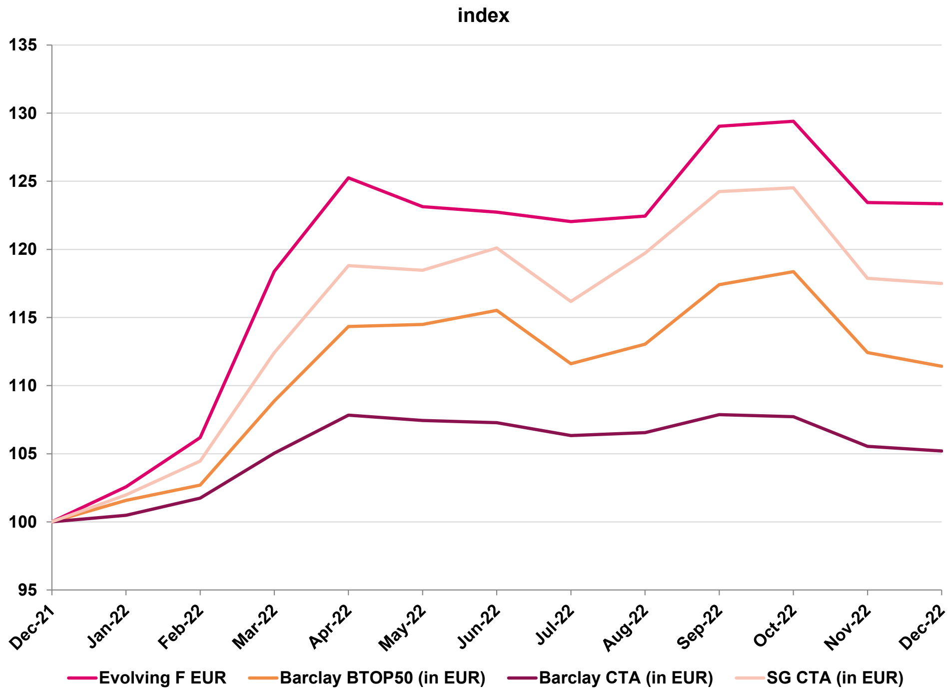


TABLE 1

RPM Evolving F EUR vs selected Managed Futures benchmarks in 2022, monthly data.
Source: Barclay Hedge, RPM

	Absolute Return 2022	Ann. Volatility 3YTD
RPM Evolving F EUR	+23.4%	12.1%
Barclay BTOP50 (in EUR)	+11.4%	7.9%
Barclay CTA (in EUR)	+5.2%	4.1%
SocGen CTA (in EUR)	+17.5%	9.1%

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