RPM YEARLY PERFORMANCE *review* 2019.

RPM *investments*
DIFFERENT MOVES.

In 2019, RPM portfolios again delivered mixed results in a difficult market environment with little exploitable time series momentum (TSMOM) outside of fixed income markets. After an initial sell-off, the year was characterized by a major bond rally on the back of an escalating US-China trade war and growing recession fears as the US yield curve inverted for the first time since 2007. In May, evolving managers once again delivered crisis alpha. However, in the fourth quarter, market sentiment completely turned around on renewed trade optimism with US stock indices reaching new record highs at year-end. As TSMOM vanished, CTA performance suffered accordingly. Overall, bonds and to some extent equities provided profitable trading opportunities while commodities were a drag on returns. Performance was mixed across managers but, on aggregate, all substrategies ended the year in positive territory. RPM Evolving was up performing in line with benchmarks whereas RPM Galaxy was down slightly underperforming.

In 2020, the global economy is generally expected to trough by midyear. If correct, CTA performance should remain positive in the coming months before we expect it to deteriorate once the business cycle turns as managers adjust positions to a new environment.

Whether or not the ongoing downturn can still turn into a recession or if the improved policy environment will procrastinate the inevitable once again, is currently very much debated. The bond market has already made up its mind though.

A WORD FROM OUR CEO

"Notwithstanding the risks of playing the fool's game (of predicting the next crisis)*, three 'Ps' are at the top of my list of concerns: protectionism, populism, and political dysfunction... the diagnosis of vulnerability* (in today's global economy) *needs to be taken seriously, especially because it can be validated from three perspectives – real economies, financial asset prices, and misguided monetary policy. Throw a shock into that mix and the crisis of 2020 will quickly be at hand."* (Stephen S. Roach of Yale University, Project Syndicate, December 23rd, 2019.)

Well, some people (including us) have cried wolf for quite some time now yet no wolf has shown up. Is it because there simply are none around? Or is it because the central banks have been feeding them with close to 15 trillion USD since the Great Financial Crisis?

The recessionary fears that gripped financial markets for a few months in mid-2019, now seem completely forgotten. Mainstream media and analysts have mostly returned to telling people what they want to hear: "maybe we shouldn't expect a return of 25% or so on our investments going forward, but things are indeed looking good..."

A few voices like Roach above, are trying to tell us that financial asset valuations are – by most measures – quite stretched, that corporate debt is at all-time high, that there are 16 trillion of fixed income instruments with negative interest rate floating around, that short VIX positions are at all-time highs etc.

Opinions on the outlook for 2020 are like current politics – increasingly polarized. Those of us that were around in 2000 and 2007 and in the late 80s may, however, recognize a discomforting feeling that something may be alarmingly wrong.

The good thing about 2019 from a CTA perspective was that momentum – or trend – finally appeared in markets other than equities. We haven't seen that since 2014 and CTAs did manage to profit nicely from it and provided some Crisis Alpha in the process. Whether this was a new market dynamic underway or just a pause in the waiting game we have been playing since 2014, is impossible to say. 2020 has, however, started on a positive note for CTAs.

CTAs have collectively underperformed equities after the financial crisis. They have, however, delivered a positive return in the absence of an equity bear market or large macro changes and in the presence of highly active central banks that have kept a lid on volatility – the very factors that drives CTA performance. As always: for those expecting a new market scenario with increased volatility and a repricing of financial assets, a CTA allocation should make a lot of sense.

- Mikael Stenbom, Founder and CEO

1. MAIN DRIVERS OF CTA PERFORMANCE IN 2019

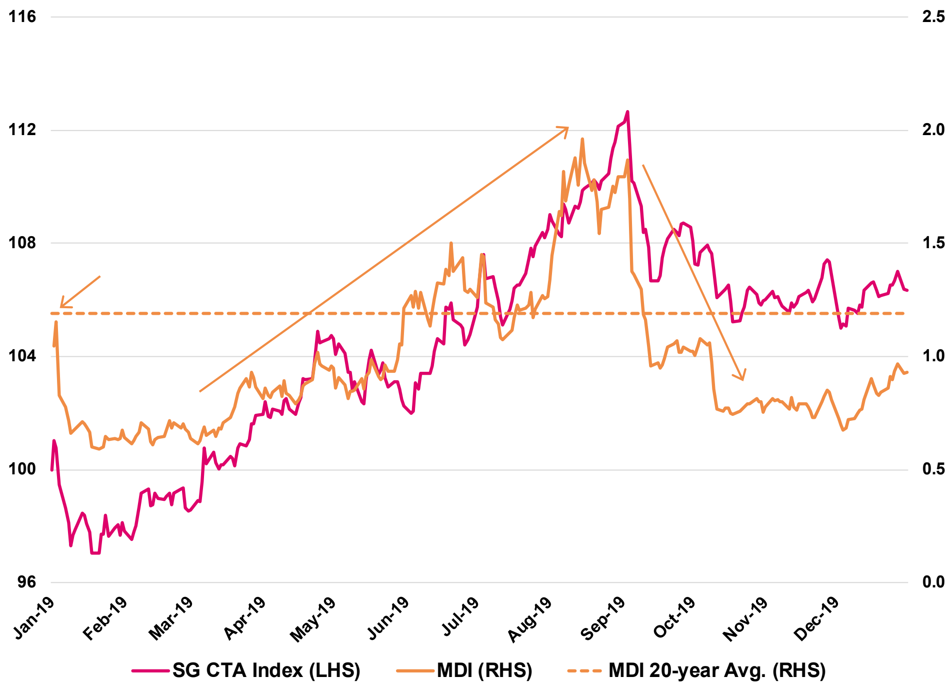
TSMOM: FROM TEARS TO CHEERS TO JEERS

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. Figure 1 shows RPM's measure of TSMOM, i.e. the Market Divergence Indicator (MDI), its 20-year average, and the SG CTA Index in 2019.[1] The synchronism is undeniable.

Overall, 2019 was another rather mediocre year regarding TSMOM. That is, the average MDI reading was just as low as the ones in 2017 and 2018 illustrating an overall lack of profitable trading opportunities. However, for a brief 3-month period during the summer, the MDI reached levels not seen since Jan-18 as CTAs successfully exploited TSMOM with the SG CTA Index briefly delivering double-digit YTD performance.

FIGURE 1

SG CTA Index and MDI in 2019, daily data, source: Bloomberg, Barclay Hedge



Regarding specific market action, 2019 can be characterized by three main episodes (see arrows in Figure 1):

1. **In the valley of tears:** In early January, the bearish market trends of 2018Q4 reversed forcefully when the Fed bent to market pressure and about-faced regarding its interest rate policy projection. Stocks and bond yields jumped, the VIX and the US dollar plunged, and consequently MDI and CTA performance slumped as the industry was giving back more than it had made in the previous month. It took managers approximately 20 trading days to adjust positions and get aligned to the new market environment. For example, the RPM Evolving CTA Fund was net long equities again on February 7th, 2019.

2. **Time of glory:** Over the course of six months (March to August), TSMOM/MDI increased almost uninterruptedly with the obvious positive effects on CTA performance. First, stocks and bonds rallied together amid easing trade tensions as well as lower interest rate expectations. Then, the US-China trade war escalated again which set a temporary stop to the rally in equities but really ignited the rally in fixed income. As MDI increased further to levels not seen in over 20 months, performance (and managers' mood) picked up accordingly.

3. **Down to earth:** In September and October, the MDI fell off a cliff and Managed Futures suffered substantial give-back losses (but this time not giving back everything) as the previous trend environment reversed sharply due to renewed trade optimism and stronger-than-expected data on both sides of the Atlantic as well as in China. Since then, the MDI has been at ultralow levels and only recently started to show signs of life in connection with the year-end rally in stocks.

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 the 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.

FIRST THINGS FIRST: THE FED'S U-TURN AT THE BEGINNING OF THE YEAR

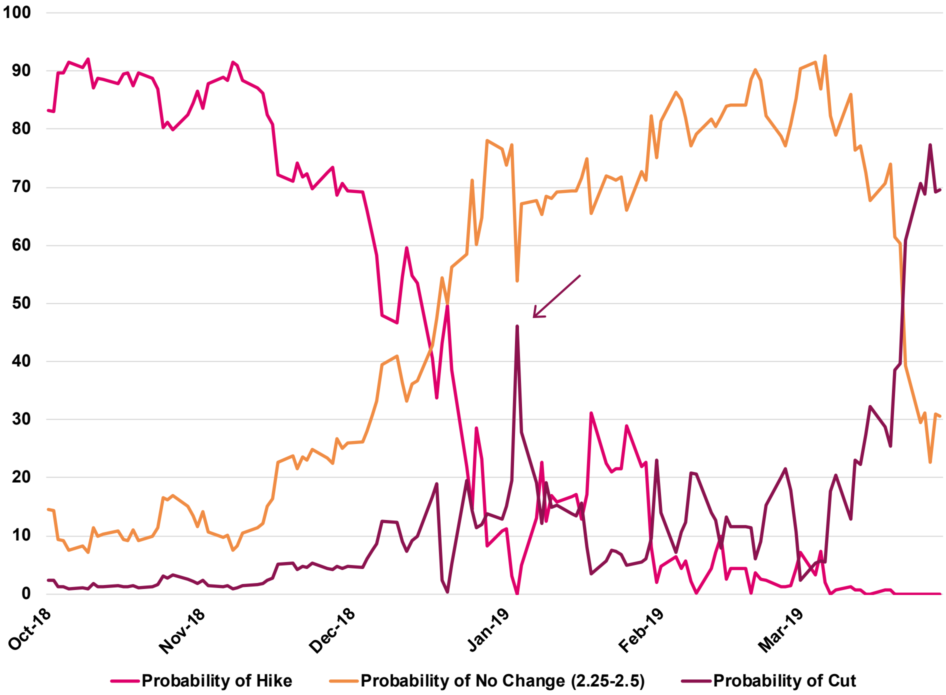
As mentioned above, Managed Futures generate profits when prices move substantially and sustainably across many different markets. However, when many assets reverse simultaneously, after having trended for a while, CTA performance suffers as losses accumulate across markets and diversification benefits turn into drawbacks.

In Dec-18, equities experienced one of their worst year-end periods ever ('VIX-mas') as global stock markets plunged with many leading indices entering bear market territory amid the ongoing US-China trade war, global growth fears, and a more-hawkish-than-expected Federal Reserve hiking rates for the fourth time during that year. CTAs were mostly profitable generating returns from being long bonds and short equities (and energies), thereby provided crisis alpha.

However, in early Jan-19, the Fed executed an about-turn when it put further interest rate rises on hold instead of paving the way for further increases as it had done less than a month before. As can be seen below in Figure 2, interest rate expectations were completely turned upside down with the probability of rate cuts, which had been close to zero all of 2018, jumping to 46.1% on January 3rd. This U-turn by the world's most important central bank – justified or not – triggered turnarounds across basically all financial markets with devastating effects on CTA performance. This was the worst start to a new year for Managed Futures in a long time (since Jan-14 to be exact).

FIGURE 2

World Interest Rate Probabilities in 2018Q4 and 2019Q1, daily data. Source: Bloomberg



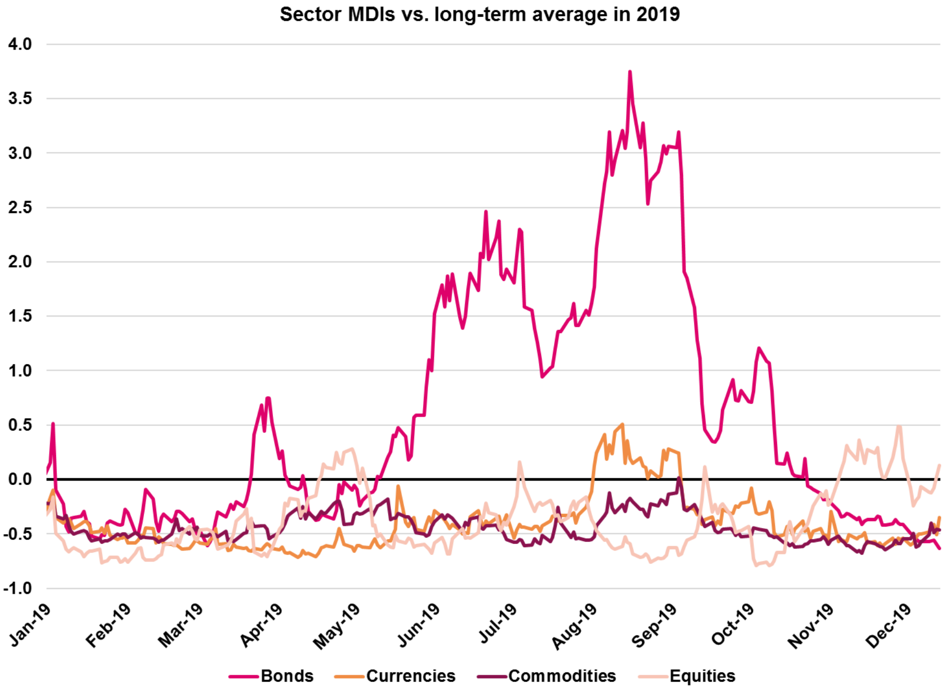
ALL ABOUT BONDS: INVERTED US YIELD CURVE, RECESSION FEARS, AND 'HAWKISH' RATE CUTS

We know that CTAs generate profits when asset prices move substantially and sustainably across many different markets. However, in 2019, TSMOM could only be found in bonds and, hence, fixed income was by far the most important and most profitable sector for CTAs last year. In Figure 3 we have split the MDI according to sectors comparing each Sector MDI with its own long-term average. As can be seen, last year, only bond markets provided CTA managers with TSMOM and profitable trading opportunities. Equity (and currency) markets sporadically exhibited lower levels of TSMOM but nothing spectacular. Commodity markets did not show any meaningful trendiness at all. The sector's MDI never reached above its own average throughout the year.[2]

2. There was plenty of action in commodity markets though, e.g. in Mar-19, meat prices jumped due to large-scale slaughtering and livestock sales following droughts and Chinese swine fever. In May-19, corn and other grain prices jumped to a 3-year high after severe delays in plantings in the US Midwest due to extreme wet weather conditions. In Aug-19, gold surged through US$1,500/ounce for the first time in over six years driven by demand for haven assets amid growing concerns about the global economy. In Sep-19, crude oil registered a historic 1-day increase of 14.6% after an attack on Saudi Arabia's oil infrastructure. However, on aggregate, there did not emerge any substantial nor sustainable price moves, no exploitable TSMOM, as commodity markets remained range-bound throughout the year.

FIGURE 3

Sector MDIs in 2019 compared to their respective long-term averages (since 1991), daily data. Source: Bloomberg

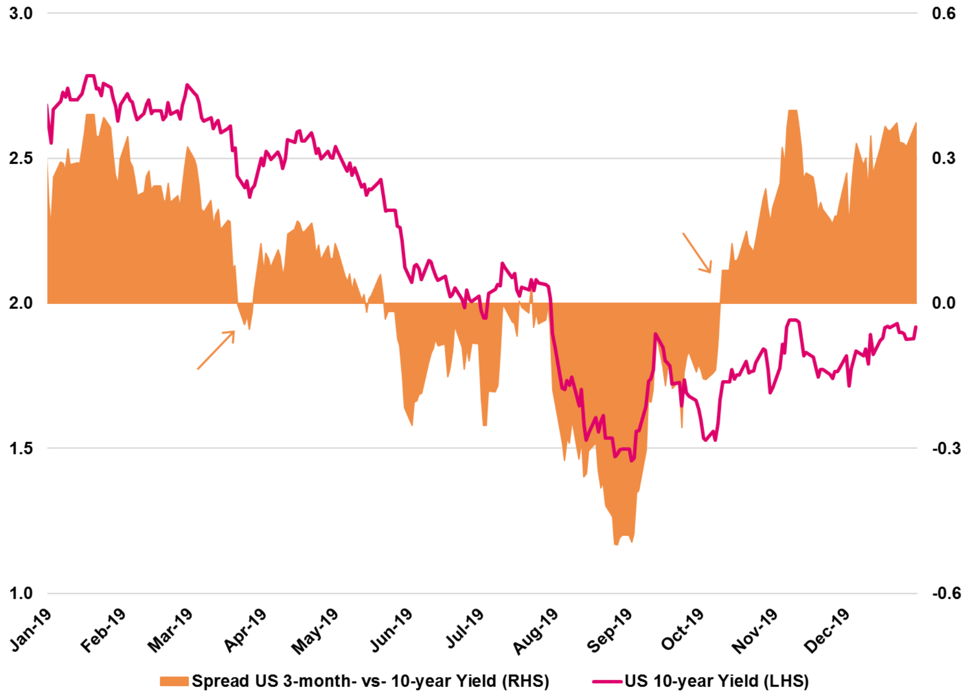


The drivers of this pronounced global bond rally were manifold.

- Last year, instead of continuing to hike or at least pause, the Fed cut its target rate three times calling these cuts ‘adjustments’ and thereby appearing somewhat hawkish while acting dovishly at the same time. Furthermore, the central bank restarted some kind of quantitative easing by intervening in the repo market injecting more than BUSD 75 of liquidity. Other central banks also acted accommodatively possibly preparing to resume quantitative easing themselves which further weighed on bond yields.
- During the summer months, the Brexit drama unfolded in all its splendour while the US-China trade war escalated further which naturally made investors seek the safety of government bonds.
- For most of 2019, economic data in both the US and the eurozone came in below expectations fueling investors’ worries over a (cyclical) slowdown in economic growth keeping the lid on yields.
- Last but definitely not least, in March, the US yield curve (a widely followed recession indicator) inverted for the first time since 2007 (see Figure 4) sparking outright recession fears among investors pushing more of them into bonds. First in October, did the yield curve re-invert as economic data started to come in above expectations which promptly resulted in an environment of rising bond yields.

FIGURE 4

US yield curve and 10-year yield in 2019, daily data. Source: Bloomberg



TWITTER AND TRADE WARS: GLOBAL STOCKS WOBBLE TO NEW RECORD HIGHS DESPITE US-CHINA TRADE WAR[3]

Once again, trend followers generate profits when prices move substantially and sustainably across many different markets. However, the higher the underlying volatility, the more difficult it will be for CTAs to profitably participate in these moves as their systems generate too many false entry/exit signals and/or keep position sizes too low. In 2019, equity markets presented such a challenging market environment.

In contrast to 2018, last year, global stock indices rallied most of the time with US stocks reaching new all-time highs by the end of the year. However, the journey was not a smooth one as the US-China trade war – amplified by Trump's tweets – added significantly to volatility throughout 2019. The choppy trading conditions in equities made it extremely difficult for CTAs to participate in the run-up. Only in Q4 did stock markets meaningfully contribute to overall performance. Figure 5 shows four main stock indices in 2019. The year can be divided into three phases (arrows):

1. From January to April, equities rebounded strongly from 2018-lows on (dovish Fed comments and) hopes of progress in the US-China trade talks as the US extended tariff deadlines and China suspended additional tariffs on US exports in return. However, at the end of the period, despite more talks a deal remained elusive.
2. In May, stocks suffered their worst month of the year (see below) as trade war fears resurfaced with a vengeance after the US had increased tariffs on Chinese exports from 10% to 25% while Trump had warned China on twitter not to retaliate. However, in direct response, China announced tariff hikes on US products while the US placed Huawei on its 'entity list', banning it from purchasing from US companies. As trade tensions waxed and waned throughout the summer equity markets remained rangebound. In Aug-19, the trade war reached its peak as stocks registered their biggest 1-day drop for the year after China allowed its currency to fall through a key threshold, escalating the trade war between Washington and Beijing, and raising concerns about the outlook for global growth.
3. Then, in September, renewed trade hopes retriggered the rally in stock markets, which lasted until year-end, as the US and China resumed their trade negotiations rolling back some of the existing tariffs. In December, US stocks hit new record highs as both countries struck a deal to de-escalate the trade war further ('Phase 1').

3. Last year, the US had further trade disputes with other countries such as Mexico and the eurozone of course. However, we will only focus on the most important one, i.e. the one between the world's two largest economies.

FIGURE 5

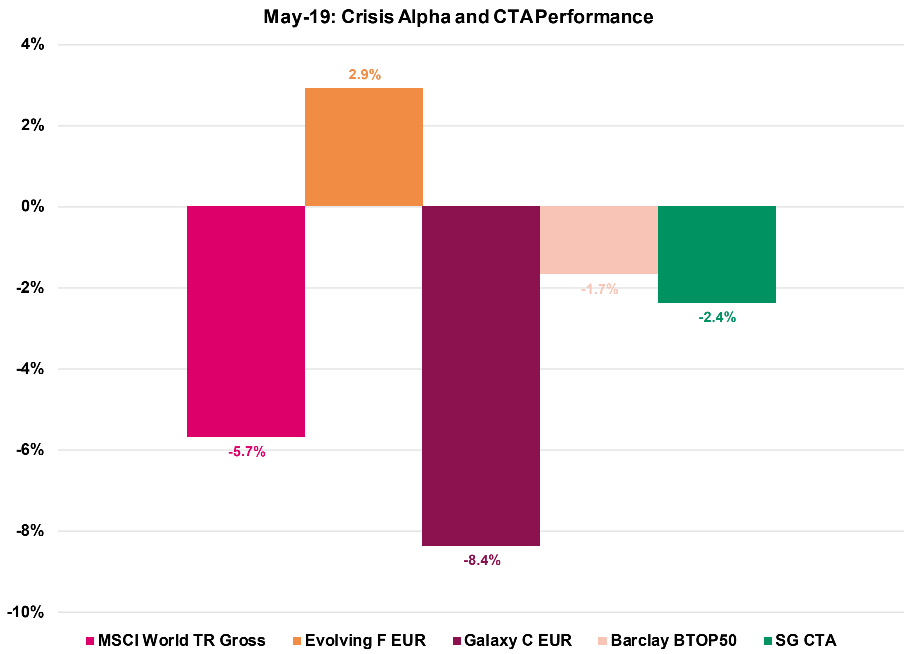
Main equity indices in 2019, daily data. Source: Bloomberg

CRISIS ALPHA: EVOLVING MANAGERS PROVIDE CRISIS ALPHA IN MAY-19

Of special interest to CTA investors are periods of financial market distress, because when (equity) markets are in crisis, CTAs are expected to deliver crisis alpha and downside protection. In 2019, there was only one 'official' crisis month, i.e. May-19.[4] However, as trend following managers were net long equities after the aforementioned 4-month rebound rally, most established CTAs and benchmarks were down as well when stocks sold off and could not provide any downside protection.[5] In contrast, RPM Evolving, containing smaller and thus nimbler managers as well as a relatively large portion of non-trend following strategies ('strategy balancing'), was able to generate positive returns and provide protection even during this short-lived market correction (see Figure 6).

FIGURE 6

May-19: Performance of MSCI World TR Index, RPM portfolios, and CTA benchmarks, monthly data



4. Crisis periods are defined as months where MSCI World Total Return Gross Index is down at least 4%. In Aug-19, the MSCI was down more than 4% intramonth which also would have constituted a crisis. However, in the second half of the month, equities recovered and, at the end auf Aug-19, the MSCI was down only 2.0%.

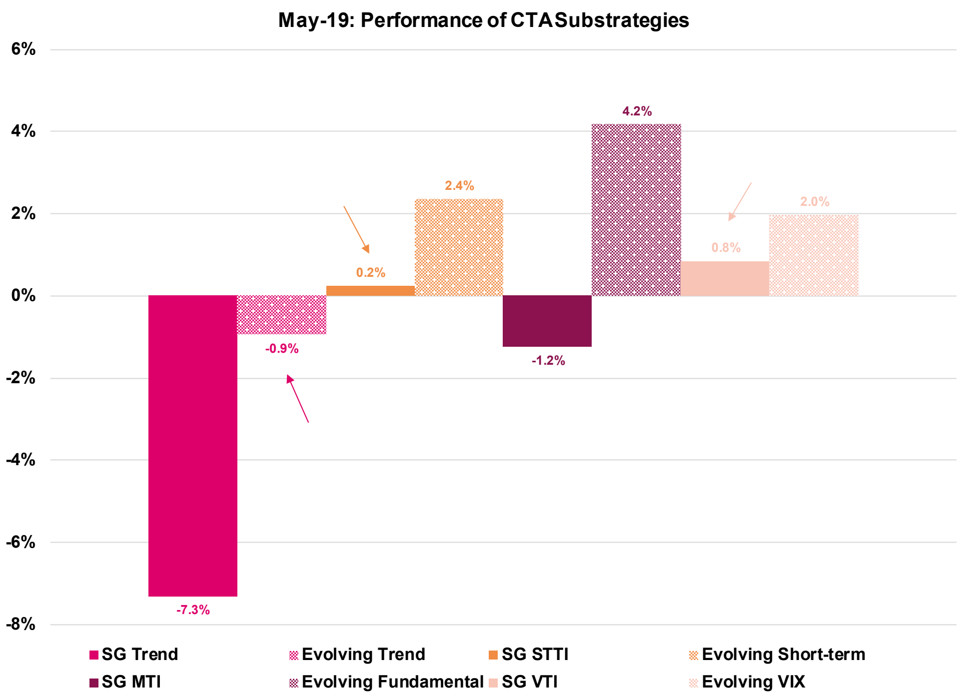
5. Going into Aug-19, given the rangebound market environment in equities in the months before, CTAs' equity exposure was significantly lower than ahead of the May-19 reversal and, thus, (equity) positions could be adjusted much faster. Therefore, in Aug-19, CTAs were generally able to deliver a positive 'crisis alpha' with the RPM Evolving CTA Fund being up 9.4%.

In the *RPM Educational #8* on CTA substrategies, there is a differentiation between major crises and brief episodes of panic such as the flash crash in May-10 or VIX-mageddon in Feb-18. In general, trend following provides the most crisis alpha of all CTA strategies if, and only if, a crisis lasts longer than a month. However, if market moves do not follow through in the coming months, the typical medium-term trend follower does not have enough time to adjust positions accordingly. In contrast, non-trend strategies often provide offsetting returns during these market corrections.

The same is true for May-19. Figure 7 shows SG and RPM Evolving CTA substrategies' returns for that month.[6] On aggregate, both evolving and established trend following managers were down whereas both evolving and established diversifying managers (here: short-term and VIX trading) provided offsetting returns. However, evolving managers were generally quicker to adjust positions and, thus, outperformed established ones across all substrategies. In other words, evolving trend following managers were down less and evolving diversifying strategies were up more which, on aggregate, resulted in positive overall performance in May-19 for the RPM Evolving CTA Fund.

FIGURE 7

May-19: Performance of SG and Evolving CTA substrategies, monthly data



6. The SG Trend Index is equal-weighted and reconstituted annually. The index calculates the net daily rate of return for a pool of trend following based hedge fund managers. The SG Short-Term Traders Index (STTI) is designed to track the daily performance of a portfolio of CTAs and Global Macro managers executing diversified trading strategies with a less than 10-day average holding period. The SG Macro Trading Index (MTI) is a broad-based performance measure for constituents that trade Global Macro strategies. These managers may typically employ top-down fundamental research to forecast the effect of global macroeconomic and political events on the valuation of financial instruments and are frequently focused on a diversified basket of instruments. In order to be eligible for inclusion as a constituent program, individual programs must predominately trade a relevant Global Macro strategy, provide monthly performance data, and have AUM greater than USD 30 million. Here, the sub-index of the SG MTI coverers only quantitative and GTAA strategies. The SG Volatility Trading Index (VTI) was the first performance measure for volatility trading within the Alternative Investment industry. The SG VTI is an equally weighed, non-investable index of funds that trades volatility as an asset class.

2. MARKET SUMMARY QUARTER BY QUARTER

In the beginning of the year, CTA performance slumped as global stock markets rebounded significantly following the Fed's U-turn on rates. However, this relief was short-lived. During the second half of Q1, CTA performance picked up again as government bonds rallied amid weak economic data, all too dovish central banks, and an inverting yield curve in the US. **Overall, CTAs were slightly up in the first quarter.**

In 2019Q2, CTA performance was strong. Stocks as well as bond markets rallied amid easing trade tensions, rising expectations for rate cuts in the US, and growing hopes for renewed monetary stimulus in general.

In the third quarter, CTA performance was positive again mainly due to profits in fixed income amid an escalating US-China trade war and mounting fears over global growth. However, in September, CTAs suffered substantial give-back losses as those trends reversed sharply on renewed trade optimism.

In 2019Q4, CTAs were down as profits in equities were more than offset by losses in fixed income. Throughout the quarter, global stocks rallied amid continued trade optimism, with US equities reaching new record highs. In fixed income, however, bonds sold-off on trade deal expectations, Brexit hopes, better-than-expected economic data, and a general risk-on mood.

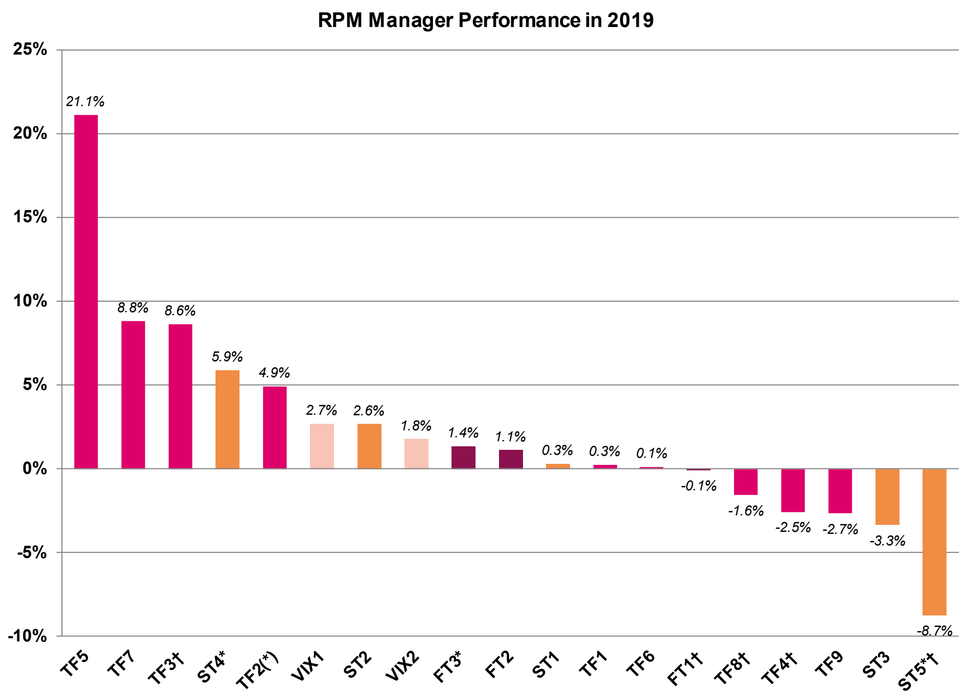
3. MANAGER SELECTION AND STRATEGY ALLOCATION

During the year, RPM allocated to a total 19 different CTA programs. Conceptually, a core group of technical diversified trend following managers is balanced with a set of diversifying strategies. A diversifying strategy can be purely technical, e.g. short-term trading or primarily fundamental in nature, i.e. global macro.

Last year, RPM added three, reopened one, and closed five managers. New programs consist of one systematic diversified fundamental manager, trying to anticipate and profit from trading activities of large market participants, and two systematic diversified short-term traders, i.e. one with a focus on intraday trading and market microstructure and one trying to identify and exploit multi-market price patterns of higher dimensions.[7] Again, all new programs are so-called "evolving managers" – as opposed to emerging managers or large cap and/or matured managers.

FIGURE 8

Managers' absolute performance in 2019, yearly data; managers that were opened during the year are marked with "*"; managers that we reopened are marked with "(*)", and managers that were closed in 2019 are marked with "†".



7. The first short-term trading manager was closed again before year-end due to breaching the predefined maximum drawdown stop loss.

Out of the current 14 managers in our portfolios, twelve are technical managers that use price data as the main input factor to their investment process. Three of them apply pure medium- to long-term trend following techniques diversified across many different markets; three managers systematically combine trend following and shorter-term mean-reversion strategies; four managers are pure short-term traders, one of them purely intraday; and two managers exploit changes in the VIX term structure. The remaining two managers use a systematic fundamental investment process with a global macro focus.

FIGURE 9

Average time-weighted manager and substrategy USD and risk allocation in RPM Evolving during 2019, managers that were opened during the year are marked with "*"; managers that were reopened in 2019 are marked with "(*), and "managers that were closed in 2019 are marked with "†".

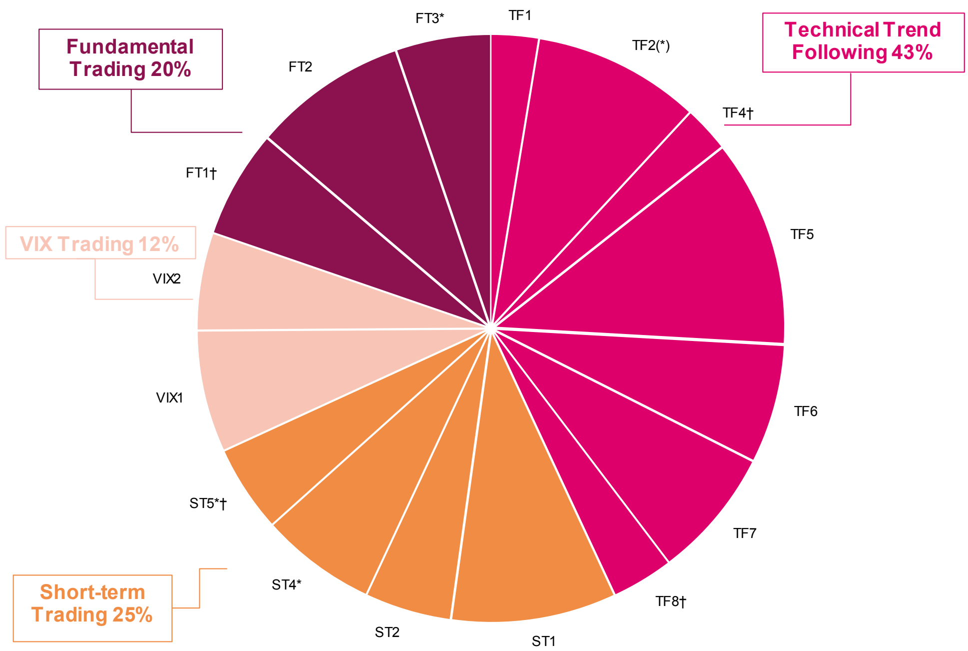
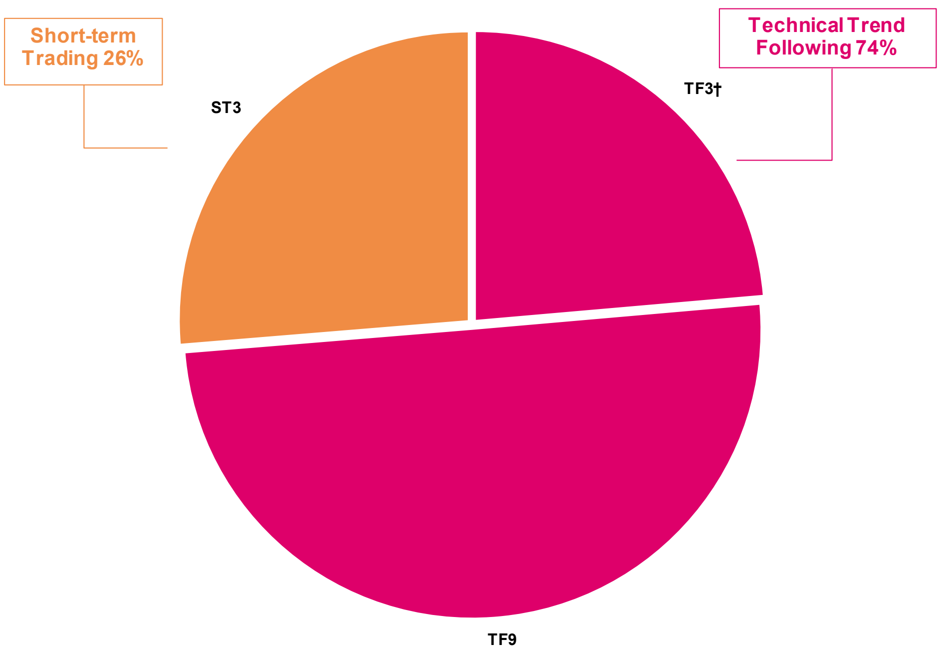


FIGURE 10

Average time-weighted manager and substrategy USD and risk allocation in RPM Galaxy during 2019. Managers that were closed in 2019 are marked with "†".



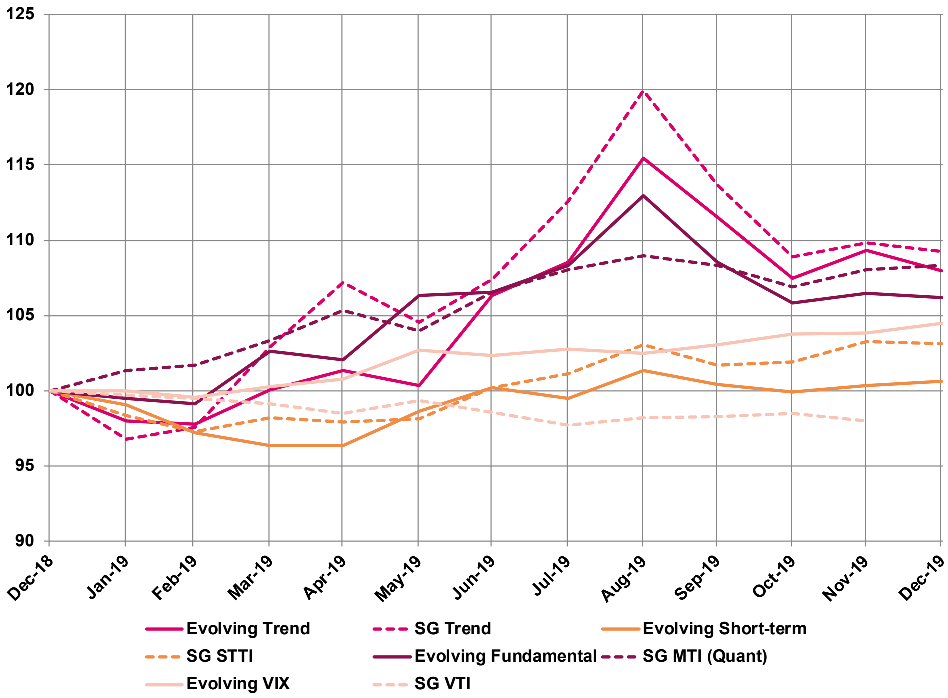
RPM actively allocates between managers in response to perceived market opportunities and risks. Regarding the RPM Evolving CTA Fund, trend following was kept significantly below its long-term average weight early in the year (continuing 'strategy shift' from Dec-18) and between September and November due to a perceived lack of market trendiness which resulted in a low annual weight for the strategy (see Figure 9). However, during the second and third quarter, as the bond rally got underway, the strategy's weight was increased continuously towards its long-term target capturing TSMOM in fixed income as it materialized. Regarding diversifying strategies, compared to last year, VIX and short-term trading were increased further mostly due to perceived diversification benefits. Fundamental managers' allocation remained largely unchanged compared to last year.

With regards to RPM Galaxy, trend following was kept above its long-term average weight of 75% until 2019Q3 due to the existing short-term trader's underperformance. However, since October, short-term trading has been increased significantly as the manager's performance had picked up notably. Annually, this has resulted in a 74% weight to trend on average.

On an aggregate basis, in 2019, all RPM substrategies ended the year in positive territory performing roughly in line with their respective SG substrategy benchmark. That is, trend and fundamental managers performed in line with benchmarks whereas short-term trading managers underperformed, and volatility traders outperformed.

FIGURE 11

Evolving aggregate sub strategy indices vs. SG benchmark indices, monthly data[8]



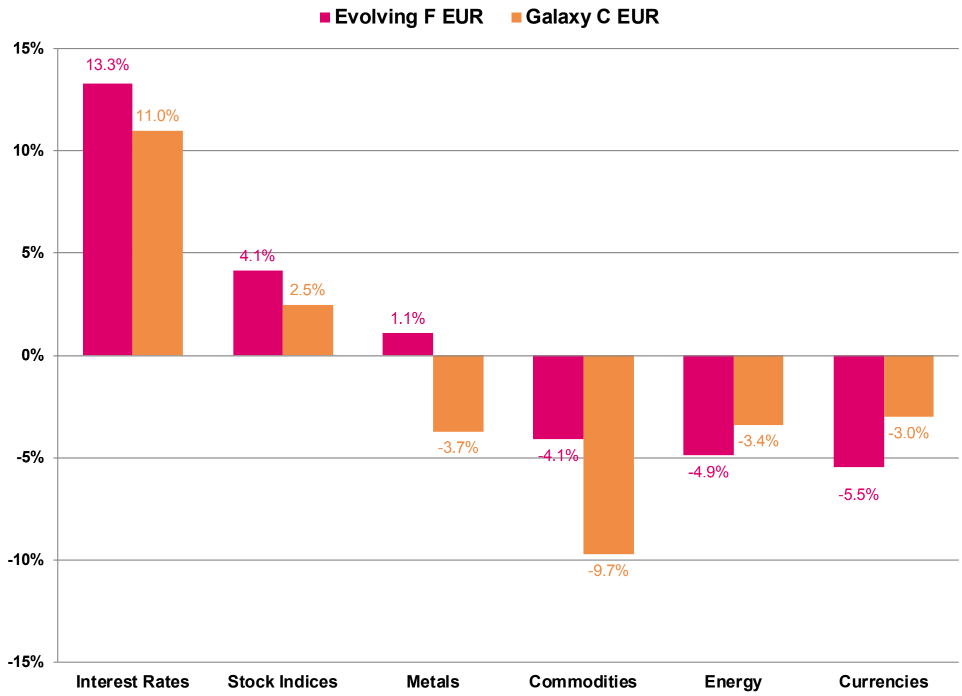
4. RPM FUND-SPECIFIC COMMENTS

As in recent years, there was again quite the dispersion between managers. However, in 2019, differences in performance depended not so much on trading horizons but mostly on sector exposure, i.e. the more exposure to commodities the more difficult it was to generate positive returns. This largely explains the difference between RPM's two funds, i.e. Evolving being up 4.0% and Galaxy down 6.4%.

8. Evolving substrategy indices cover the live asset-weighted performance of all accounts in the RPM Evolving CTA Fund at any given point of time according to our own substrategy classification, i.e. trend following, short-term trading, fundamental, or VIX trading.

FIGURE 12

RPM CTA portfolios' performance attributions by sector 2019



4.1 RPM EVOLVING CTA FUND

The RPM Evolving CTA Fund is built on RPM's over 20 years' experience as a CTA investor and focuses on CTAs in the so-called "evolving phase". Typically, CTAs in the evolving phase 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 evolving managers with an expected annual turnover of 2-3 managers.

In 2019, RPM Evolving (F EUR) was up 4.0% with profits in stocks and bonds outweighing losses in commodities and currencies. Compared to established managers and benchmarks, evolving fundamental managers were basically bearish throughout the year while evolving short-term traders were quick to adapt to the shifts from bullish to bearish market environments, especially in May and August. This boosted performance in Q1 and Q2 but made the subsequent reversal in September and October even more painful (like the reversal in Jan-19 after the panic of 2018Q4). Furthermore, and somewhat counterintuitive, evolving trend following managers had significantly less commodity exposure than established ones which also helped given the absence of TSMOM in the sector last year. With regards to substrategy performance, on aggregate, all substrategies ended the year in positive territory with trend following leading and short-term trading lagging a bit.

4.2 RPM GALAXY FUND

The RPM Galaxy Fund is a concentrated portfolio of two systematic CTAs. The fund is suited for investors looking for classic CTA exposure but with better diversification. The core of the portfolio is trend following with short-term trading as a diversifier. The fund trades at a target of 17% annual volatility.

In 2019, RPM Galaxy (C EUR) was down 6.4% with profits in stocks and bonds outweighed by losses in commodities. Established trend following managers were not quick enough to adjust exposure in response to market dynamics, especially in May and August, whereas the existing short-term trading managers failed to provide diversification during these months. Furthermore, in May-19, trend followers were caught wrong-footed in several grain markets whereas the short-term trader suffered disproportionally in precious metals in August. Thus, overall, performance was negative across managers and substrategies.

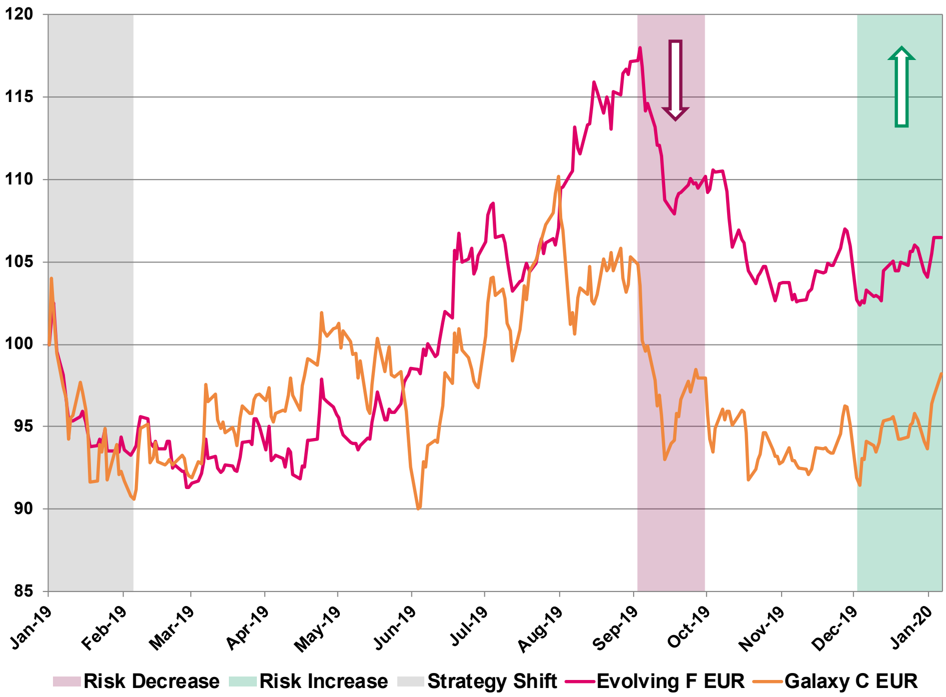
4.3 RISK ADJUSTMENTS

RPM monitors market data and positions daily and responds to risk and opportunities as they occur. Because RPM utilizes separately managed accounts (SMAs), 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 on top of what can be made from manager selection and static allocations alone.

In 2019, we conducted three risk adjustments, i.e. a horizontal strategy shift carried over from 2018, a risk reduction in September, and a risk increase in December, which is still active as of today.

FIGURE 13

RPM Evolving F EUR and Galaxy C EUR risk in- and decreases in 2019, daily data



On December 18th, 2018, in Evolving, portfolio risks were adjusted by reducing allocations to long-term trend following managers due to perceived position and concentration risk. This horizontal portfolio shift was officially closed on February 5th, 2019, when TSMOM as measured by MDI had started to pick up again, thus, indicating somewhat better opportunities for trend going forward. **In 2019, this allocation contributed 149bps.** So, this strategy shift added a total of 304bps to overall performance in 2018 and 2019 together.

At the end of August, CTAs had generally had strong performance largely from bullish trends in fixed income. Although RPM Galaxy was down that month due to a single non-trend following manager's underperformance, CTA benchmarks were up in general and the RPM Evolving CTA Fund was up 9.4%. On August 26th, RPM's coordinated market sell-off indicator (CoMaSe) started to warn of an environment where sudden, violent, and broad sell-offs were more likely than otherwise. Additionally, after the summer's strong trend environment, RPM's measure of TSMOM (i.e. MDI) had reached elevated levels not seen since Jan-18 indicating overextended trends. These indicators combined prompted RPM to react at month-end. Going into September, overall portfolio risk was decreased by roughly 10% in both portfolios. Risk was put back on at month-end after approximately four weeks. **In both Evolving and Galaxy, the vertical leverage adjustments were positive adding 50bps and 21bps respectively to overall performance.**

Going into December, overall portfolio risk was increased by approximately 10% through higher allocations to trend following managers in both portfolios as TSMOM/MDI had broken out of its range and portfolio risks were perceived too low to capture potential calendar effects (i.e. year-end rally). **As of December 31st, due to the initial sell-off at the beginning of the month, this vertical adjustment has subtracted 23bps in Evolving and 59bps in Galaxy.** At the time of writing (2020-01-17), however, these leverage adjustments have turned positive, contributing 61bps and 104bps respectively.

In 2019, in the RPM Evolving CTA Fund vertical leverage adjustments have added a total of 176bps to overall performance while they have subtracted 38bps in RPM Galaxy.

5 OUTLOOK FOR 2020

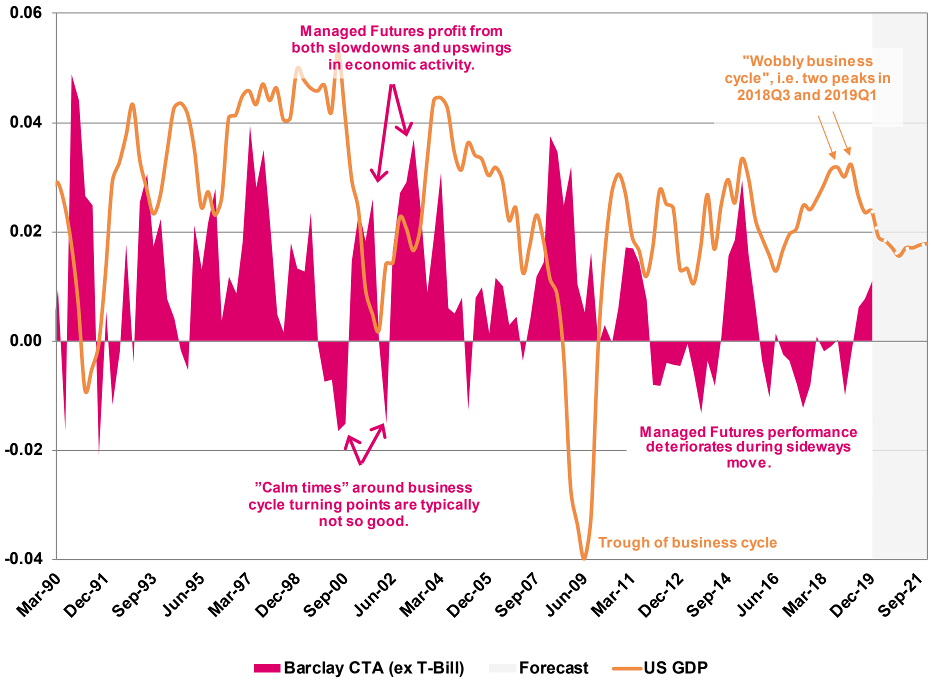
Managed Futures profit from both large upswings and slowdowns in economic activity. Furthermore, during (extended) financial market crises, CTAs tend to outperform other investment styles delivering so-called "crisis alpha". However, periods around business cycle turning points are typically less attractive from an absolute return perspective (see Figure 14).

In 2008, during the violent downturn, CTAs delivered stellar performance. 2009 was marked by weak performance which coincided with the trough of the business cycle. In 2010, economic activity as well as CTA performance rebounded noticeably. In 2011, 2012, and 2013, passing through an extended sideways period, performance declined. In 2014, economic activity picked up notably; performance followed suit. In 2015, the cycle made another turnaround, but the slowdown was only short-lived before economic activity rebounded once again in 2016, which hurt performance. In 2017 and 2018 economic activity improved but the 2-year runup was too wobbly for CTAs to significantly profit from it.

In early 2019, the current business cycle reached its preliminary peak. Since then, as expected, the global economy has entered a cyclical slowdown and, as expected as well, CTA performance has picked up accordingly. However, it seems like the slowdown was taking a breather in 2019Q4. So did performance.

FIGURE 14

CTA performance (i.e. 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. 2019Q4 value is the GDPNow model forecast for real GDP growth (seasonally adjusted annualized rate) from January 7th, 2020, as provided by the Atlanta Fed. 2020 and 2021 quarterly values are based on Oxford Economics' (seasonal adjusted annualized rates) forecast as of 2020-01-09. Sources: Barclay Hedge, Bloomberg, Federal Reserve Bank of Atlanta, and Oxford Economics.



From a macro perspective, opinions regarding the economic outlook for 2020 differ much more than they did going into 2019. Optimists see the risk of recession pushed into late 2021 (or even lifted) as the economic data is improving and as political risks such as the impeachment inquiry, Brexit, and the US-China trade war have started to subside. As the Fed has reduced rates and is not expected to increase any time soon, on balance, the current policy environment could therefore transform from a headwind into a tailwind resulting in modest growth of approximately 2% for the US in 2020.

Pessimists, on the other hand, warn that bonds, rather than stocks, are a better guide to the future and that, a few months ago, the bond market did send a clear recession signal when the US yield curve inverted. Historically, this inversion has been a sure-fire indicator of an impending economic downturn and, doubting that "this time is different", these analysts list shocks like a rise in the emerging market bond risk premia, an oil price above US$100/barrel by 2020Q2, a drop in world equity prices of 30% in 2020H2, the tightening of credit standards equivalent to 1/3 of that seen in 2007-2009, or a reescalation of the US-vs.-rest-of-the-world trade war as potential triggers for the next recession. Not being that pessimistic, Capital Economics (2019-09-24) expect US GDP growth for 2020 at or below 1.4%.

Most researchers expect the slowdown to continue for another 1-2 quarters, stopping short of a recession though. By mid-2020, GDP growth is expected to trough before picking up again as the effects of policy support measures seep through to the real economy. As the rebound is estimated to be modest compared to the two previous ones, Oxford Economics (2020-01-08) expect US GDP growth for 2020 at 1.6% and the risk of recession at 30%.

Regarding CTA performance going forward, CTAs tend to perform better in economic slowdowns than during upswings as the corresponding market moves are often more robust. Around business cycle turning points performance tends to deteriorate. **Thus, assuming the above baseline case, CTAs should be able to maintain a positive performance profile until the summer, profiting from a wide range of market trends in equities and maybe commodities as well. By midyear, however, we would expect performance to be affected negatively by the turn of the business cycle.** It is up to us to actively manage portfolios' risk levels during this period. However, if this time around "it is not different", we are looking forward to interesting times for CTAs indeed.

6 PERFORMANCE STATISTICS 2019

FIGURE 15

RPM portfolios vs. CTA benchmarks (in EUR) in 2019, monthly data. Source: Barclay Hedge, RPM

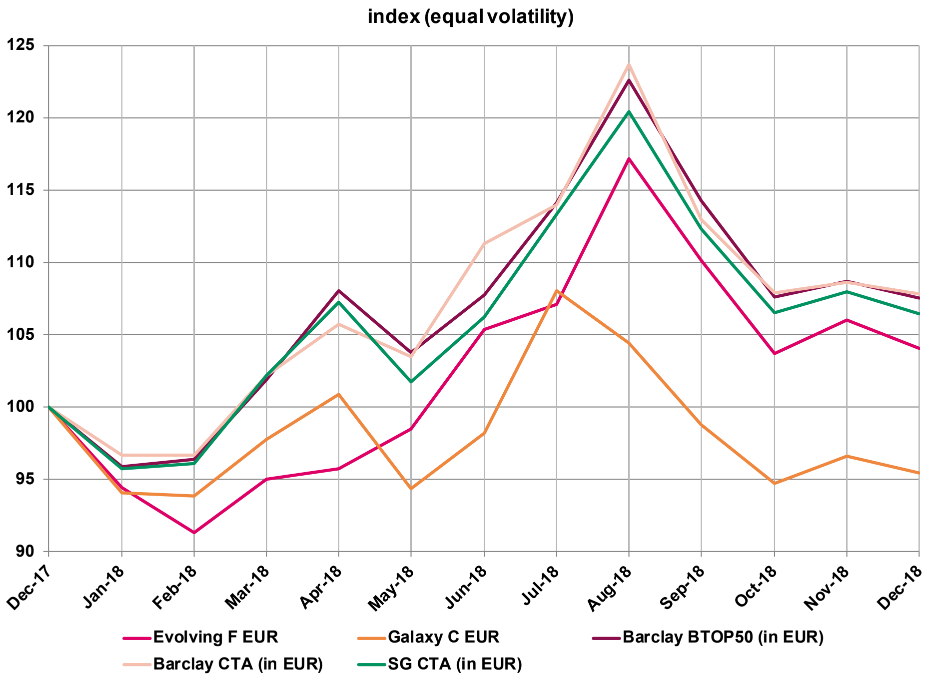


TABLE 1

RPM portfolios versus selected Managed Futures benchmarks in 2019, monthly data. Source: Barclay Hedge, RPM

	Absolute Return 2019	Ann. Volatility 3YTD
RPM Evolving CTA Fund (EUR)	+4.0%	16.6%
RPM Galaxy (EUR)	-6.4%	22.6%
Barclay BTOP50 Index	+3.9%	7.2%
Barclay CTA Index	+2.2%	4.3%
SG CTA Index	+3.6%	8.4%

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