

# INVESTOR LETTER, Q4 2022

## JANUARY 2023

The pessimist complains about the wind;  
 the optimist expects it to change;  
 the realist adjusts the sails.

- William Arthur Ward

Dear investors,

First of all, we thank all our investors for your continued confidence in Tramondo Investment Partners AG. We wish you all the best personally and professionally - be well, be good and take care during these unprecedented times and, lastly, we wish you a prosperous and healthy 2023!

For the quarter- and year-to-date period ending December 31, 2022, please refer to chart 1 for the risk/return metrics for Tramondo Dynamic Equity USD I (net of fees). Assets under management stand at USD 166mn.

### CHART 1: RISK/RETURN METRICS

	Fund
QTD	7.7%
YTD	-18.9%
Return p.a.	7.3%
Volatility	13.1%
Sharpe/Sortino ratio	0.5 / 1.07
Largest monthly loss	-9.6%
Maximum drawdown (Weekly)	-24.7%
Max drawdown (# of months)	12

SOURCE: BLOOMBERG, BASED ON MONTHLY DATA IN USD; ALL FUND RELATED FIGURES ARE NET OF FEES; RETURN P.A. IS SINCE STRATEGY ENHANCEMENT FEB 19; SHARPE RATIO AND SORTINO RATIO IS CALCULATED USING A RISK-FREE RATE/ MINIMAL ACCEPTABLE RATE OF RETURN (MAR) OF 1.00%

Please find below a summary of the year as well as our outlook.

### REVIEW

For us, **2022** can best be described as a soccer match with two halves. The first half has been characterized by the new familiarization with rising

CALLING THE START OF 2022 A CHALLENGING TIME FOR OUR PORTFOLIO WAS A SLIGHT UNDERSTATEMENT

inflation, restrictive central banks, and a devastating geopolitical situation that has led Europe into its darkest hours since World War II. As a result, the changing macroeconomic environment has sent shock waves through the market. These macro factors, which have been with us throughout the year, have led to sharply rising yields, a strong U.S. dollar index and rising commodity prices. Not surprisingly, our stocks suffered some indigestion when bond yields suddenly rose. But like a reinforcing butterfly effect, this triggered the strongest rotation ever from "strong balance sheet equities" to "weak balance sheet equities" by the summer of 2022. The carnage ultimately resulted in global markets experiencing the worst first half of the year since the 1970s. In short, to call the start of 2022 a difficult time for our portfolio was a slight understatement.

It took until the end of the summer for us to find our way around the market and better adapt to the current circumstances. During this period, we encountered sharp earnings reactions, the likes of which we had not seen in our portfolio since its inception, as well as difficulties in our hedging activities.

The former indicated that even minor earnings and forecast misses were being punished, as we experienced firsthand with several of our portfolio holdings such as Home Depot, Meta, Fortinet, Estee Lauder, Zoetis and Target, whose losses had a disproportionate impact on the portfolio. The market left no doubt that there is little room for error given the current macroeconomic environment. In addition, we suffered from two major company specific events in SalMar (rent tax in Norway) and Teleperformance (labor probe), both shedding close to 40% in a matter of days. We have strict rules about "Bird-Strike-Events", such as selling 50% of the stake immediately. Such rules in our investment process, which we have adhered to over the years, have made it easier for us to stick to our investment principles and not get caught in a style drift. Throughout the year, we stuck to our process and methodology, which translated into a strong comeback at the end of the year, at least on a relative basis.

In the second half of the football game, we had the ball in our possession much more often and were able to adjust and react to market dynamics

WE STUCK TO OUR INVESTMENT PROCESS ULTIMATELY LEADING TO A STRONG COMEBACK

CHART 2: GLOBAL EQUITIES CONTINUE TO POST LOWER HIGHS AND LOWER LOWS



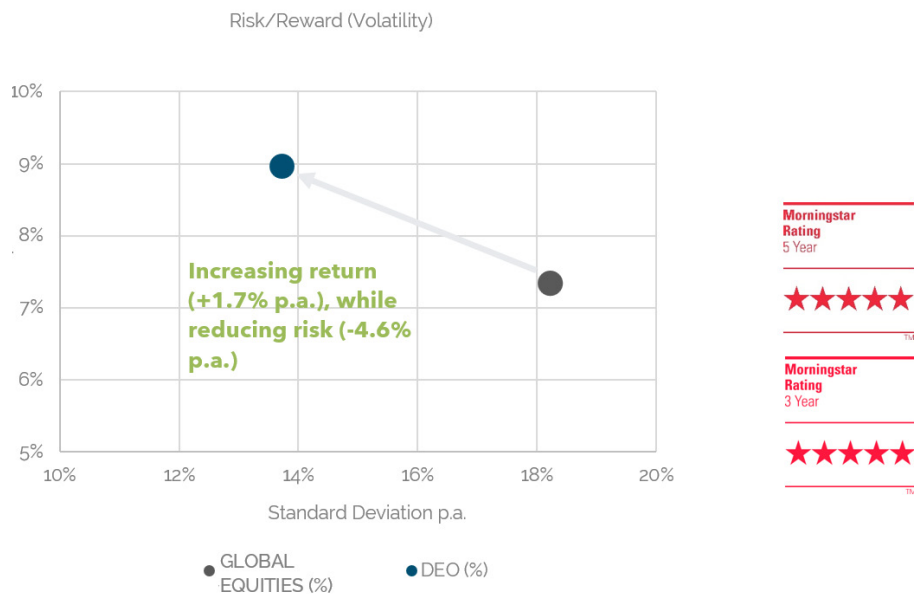
SOURCE: TRADINGVIEW

much more quickly. First, the indexes suffered from a relentless inability to break out of the downtrend as they continued to post lower highs and lower lows (Chart 2). Given the unfavorable market conditions, we adhered to the key stock market adage of not fighting the Fed (i.e., liquidity). As a result, we remained in capital preservation mode for most of the year, taking advantage of favorable risk-reward ratios to increase or decrease our net long positioning.

**THE FIRST MILESTONE HAS BEEN REACHED AND OUR MOMENTUM IS PICKING UP**

From then on, our two pillars, the quality portfolio and the risk overlay, showed a silver lining. With the brutal month of September, we were finally back on par with the global indices, having trailed them by more than 8% at times during the year. This marked a first milestone and our momentum picked up again. Relatively speaking, we are back on track, and as dedicated co-investors we are now determined to improve performance in terms of absolute returns. This was also recognized by Morningstar, the world's largest fund management rating company, by again awarding the strategy 5-stars over a three and five year period.

**CHART 3: BOTH STOCK SELECTION AND HEDGING ARE PLAYING THEIR PART IN IMPROVING THE RISK-REWARD RATIO OF THE FUND**



SOURCE: BLOOMBERG. BASED ON MONTHLY DATA IN USD. FUND PERFORMANCE SHOWN IS GROSS OF FEES IN USD OF TRAMONDO DYNAMIC EQUITY OPPORTUNITIES (DEO) SINCE STRATEGY ENHANCEMENT IN FEB 2019

**WE ADDED BUSINESSES THAT POSSESS THE ATTRIBUTES WE DESIRE IN THE COMING YEARS**

In terms of latest developments, given the uncertainty around the economy, inflationary pressures, and considering our global equity screening, we have a portfolio that is poised for the future. The focus shifts back to high quality fundamentals such as strong moats, earnings visibility and stability, reliable free cash flows, and low leverage. In addition, our portfolio holdings have gross margins averaging over 55% (Global Equities 33%) and a robust return on equity of 25% (Global Equities 16%). Companies with greater gross margins - the difference between revenue and cost of goods sold - exhibit a greater ability to protect its profits against inflation. So, from a fundamental respect our companies are likely to be better able to weather inflation.

Among the largest contributors during the fourth quarter of 2022 were our top positions, particularly in the information technology, consumption, and

health care sectors. The largest negative contributions stem from technology bellwethers.

#### CHART 4: TOP FIVE FUND CONTRIBUTORS & DETRACTORS BY HOLDING FOR Q4 2022

Top Contributors	Average Weight %	Contribution in Bps	Bottom Contributors	Average Weight %	Contribution in Bps
Novo Nordisk	4.9	+78	Palo Alto	2.3	-34
ASML	2.9	+70	Alphabet	2.9	-22
Deere	2.5	+65	Teleperformance	2.2	-16
AstraZeneca	2.8	+53	Mosaic	1.6	-15
LVMH	2.4	+48	Apple	2.4	-14

SOURCE: LGT FUND MANAGEMENT COMPANY FOR THE THREE MONTHS ENDING 31 DECEMBER 2022. THE HOLDINGS IDENTIFIED AND DESCRIBED DO NOT REPRESENT ALL SECURITIES PURCHASED, SOLD, OR RECOMMENDED FOR INCLUSION IN THE FUND AND NO ASSUMPTION SHOULD BE MADE THAT SUCH SECURITIES OR FUTURE

**WE GAINED ≈6% ON OUR HEDGING ACTIVITIES DURING THE YEAR**

We gained approximately 6% on our hedging activities during the year. We struggled at the beginning of the quarter as a rotation rather than a risk-off event was the main driver. We tend to be more cautious in implementing and managing the size of our hedges during rotations, as the market is just moving between sectors and not really indicating systemic issues. However, after the initial shock, it quickly became clear that in the face of a plethora of other concerns (inflation, economic slowdown, debt, multipolar world), there was a risk-reward relationship that suggested the market was not out of the woods yet. Consequently, we remained in capital preservation mode throughout the year, using strength to reduce our net exposure and weakness to increase it. The result was a net exposure between 25% and 100% during the year. At year-end, the net allocation is 75% net long.

#### OUTLOOK

The valuation bear market is over. The wild card remains inflation and the inevitable (?) profit recession that would still have to follow. Thus, 2023 will be all about navigating a very macroeconomic driven cycle, interest rates higher for longer and adhering to our adaptive investment style. As long as conditions do not change, we will remain in capital preservation mode and maintain our hedging activities.

Regarding the equity portfolio, the good news is that we do not invest based on our ability to forecast inflation or any other macroeconomic factor. We invest in companies, not countries, indices, or macroeconomic forecasts. At Tramondo, we cultivate to say that the best economist we know is the inside of the stock market. Therefore, with the market having passed through its first wide correction, we assume increased visibility in the foreseeable future, as well as distinct new leadership developing, particularly in health-care, energy and sub-sectors such as pollution control and insurance.

**WE AIM TO BUY SHARES IN A "GOOD STORY" AND A "GOOD CHART"**

We are investing in businesses which have shown great resilience over a long period of time, in some cases surviving two world wars and the Great Depression. Our investment strategy is based first and foremost on buying shares in a "Good story" underscored by a "Good Chart". A "Good Story" involves moats and structural tailwinds, robust earnings, sales growth and

margins, a high return on invested capital, low debt levels and both attractive free cash flow generation and valuation, respectively. This is supported by relative strength and supportive price action, a "Good Chart".

Best wishes,

Tramondo Investment Partners AG

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