MOVE ASSET MANAGEMENT

Global Multi-Strategy Portfolio (GMSP)

Net return & statistics for the year ending June 30, 2022

Fund Performance Annualized (%)	1-YR Return p.a.	2-YR Return p.a.	3-YR Return p.a.	5-YR return p.a.	Annual % p.a. since inception
Move Multi-Strat (USD)# Move Multi Strat (NZD)#	-8.2% +2.5%	+10.2% +11.6%	9.6% 11.5%	n/a n/a	8.6% 10.3%
NZ Super Fund (NZD)*1	-7.0%	9.8%	7.0%	8.1%	9.7%
US IVY Endowment 2	-10.2%	6.8%	5.4%	6.1%	8.7%
Barclays Agg Bond	-10.3%	-6.0%	-1.0%	0.8%	1.4%
MSCI ACWI (est July 2014)	-15.8%	8.3%	6.2%	7.0%	5.6%

Inception January 1, 2019
* Returns taken to June 30, 2022 . Inception September 2003
1 Fiscal year end; 30 June 2022 https://www.nzsuperfund.nz/performance/
2 Bloomberg 2022 Endowment returns

June 30, 2022

Investment Manager: Move Asset Management

Currency: USD

Expense ratio: 0.51% / 10% performance

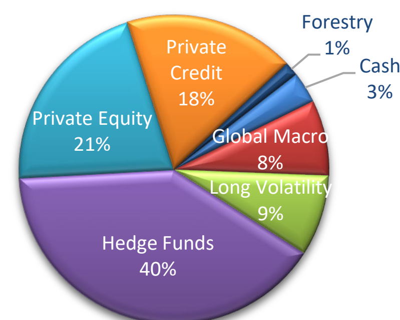
Portfolio Inception: January 1, 2019

Managers: 15

Structure: Separately Managed accounts

Investor Eligibility: Wholesale & Institutional

Investment Minimums: $1,000,000



Global Multi-Strategy Portfolio

For the twelve months to June 30, 2022, the Global Multi-Strategy Portfolio (GMSP) was up +2.5% (NZD) & -8.2% (USD). The annualized returns since inception is +8.6% p.a, in USD and +10.3% p.a. in NZD. Sharpe ratio of 1.3 & annualised volatility of 6.4%

- GMSP NZD return +2.5% over 12 months, & +10.3% p.a. since inception
- S&P500 & MSCI (ACWI) USD returned -10.6% & -15.8% Y vs GMSP -8.2%
- S&P500 & MSCI (ACWI) annualised volatility 14.5% & 14.8% vs. GMSP 6.4%

The 1st half of 2022 has been a challenging market for most risk assets globally, as the central banks around the world set off on increasing interest rates to arrest inflation from a two-year period of very loose monetary and fiscal policy. Continued re-pricing of monetary policy which in turn has fueled concerns about recession risks has been responsible for the large price declines in both private and public assets this year, and it is difficult to imagine a sustained recovery in either public or private assets from here without first seen a peak in FED pricing. Once the market pricing about the Fed peaks, the conditions for a market rebound are already in place due in large part to the measure of excess cash or liquidity, proxied by the stock of money supply as percentage of the total stock of financial assets, suggests that cash holdings stand at their highest level in a decade.

The asset classes….

Hedge Funds: The hedge fund industry managed to deliver its biggest positive alpha this year since the global financial crisis led by the biggest hedge funds and global macro funds. We have witnessed this so far this year & by all accounts discretionary global macro is expected to be the style that is able to benefit from the bigger forces at play in foreign exchange, interest rates and equity markets as they will be the fastest to adjust. Needless to say that similar to 2008, the sharp improvement in the estimated alpha this year to a large extent reflects the very negative performance of publicly traded bonds and equities. (more on 60/40 equity/bond portfolios)

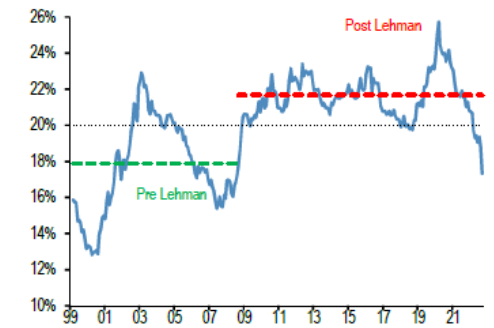
Private Equity: Headwinds for private equity have continued to build given the weakness in publicly listed equities. While data on deal activity and fundraising continue to point to only a modest impact thus far, there are some signs that valuations have begun to adjust and exit activity remains impaired. Slowing payouts to investors, which are typically recycled into future commitments, and a rapidly rising cost of debt to fund deals are likely to further affect fundraising and deal making in 2H22. Exit activity continues to be affected, particularly the public listing route which has remained effectively closed in the US in particular. The longer this dearth of exists lasts, the more it risks slowing payouts to PE investors that are often reinvested into new PE fundraisings. Dealogic data continue to suggest that M&A volumes are tracking around $3tr, or an annualized pace of around $4tr. This would be a clear step down from 2021's pace of just over $6tr, though still broadly in line with average since 2015. Investors are also finding themselves overweight private equity in their portfolios relative to publicly listed equities. This in turn may make investors more reluctant to commit new capital or force them to sell stakes via secondary markets. Anecdotal evidence suggests that secondary market activity has not picked up as much as dedicated secondary funds had expected. Moreover, while this type of environment should be conducive to raising capital for secondary market funds, they have also been affected by the increase in private equity overweight's. This could indicate that the capacity to absorb sales of stakes in the secondary market is limited.

Private Credit: Despite the weak performance of public credit markets YTD, activity levels in private credit have held up well. While the transition to a higher rate environment was previously touted as a positive for floating rate credit assets, which we believe includes most private credit fund loans, the threat from restrictive monetary policy is already weighing on leveraged credit. Lending rates on new private credit deals have re-priced higher, but still look tight compared with the broadly syndicated loan market, suggesting more widening is on the way.

The model of 60/40 (equity/bond portfolio) has created a new problem

This year's rise in bond yields is of historic proportions. The 250bp YTD rise in the Global Agg bond index yield that took place in a period of nine months, represents the steepest and largest rise in the history of the index, exceeding the bond yield rise of 1994. What is even more unprecedented is the decline in the return of the Global Agg bond index on a currency unhedged basis. Effectively more than a decade of previous returns has been unwound in a period of only nine months. This year's bond selloff has been taking place against a backdrop of very low liquidity. As rate volatility rises, bond market makers step back from their market making role and raise bid offer spreads inducing low market depth and lower liquidity, which in turns creates even more rate volatility (enter long volatility). Effectively 14-years of previous bond overweight's have been already erased and investors' positioning has transitioned to the pre Lehman crisis norms when the average bond allocation was around 18%

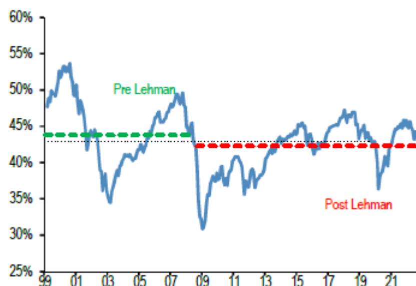
Implied bond allocation by non-bank investors globally



Source: J.P. Morgan

There are two implications from this low bond allocation. First, the overall equity allocation of investors globally has not seen a big decline, despite the 26% decline in global equities this year. This is because the equity allocation is a relative measure and with global bond and equity indices having declined by comparable magnitudes this year (21% and 26%, respectively), the stock of equities relative to the stock of bonds and cash has declined more modestly. The implied equity allocation has declined somewhat this year it merely reversed last year's rise and still stands close to its pre-Lehman crisis average. Any significant upside could require a recovery in bonds to induce investors to push equity prices up to prevent their equity weightings from mechanically falling as a result of bond price increases. In other words, a sustained bull market in equities could require a bull market in bonds. The second implication from the low bond allocation of is that the bond universe held by the private sector outside central or commercial banks, has diminished in size to below $30tr currently, which is much smaller than the size of either the stock of equities ($73tr) or the stock of cash ($67tr). This means that any further yield rises from here would be worth less in dollar terms which in turn implies less upward pressure on equity allocations. In other words, the pressure on multi asset investors to sell equities to offset the mechanical increase in their equity allocations stemming from bond price declines has diminished.

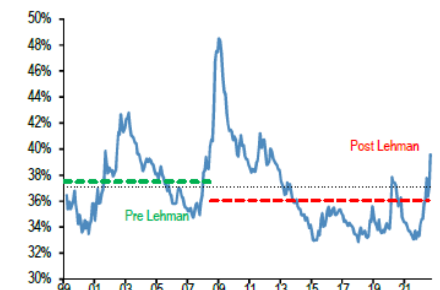
Equity allocations non bank investors globally



Source: J.P. Morgan.

The feedback loop between equity and bond allocations, it is worth emphasizing that cash allocations have risen sharply this year due to the simultaneous decline in the value of both equities and bonds. This is shown in here, which shows that the implied cash allocation of investors globally has risen to its highest level since 2012 and above its level seen at the peak of the pandemic crisis in March 2020

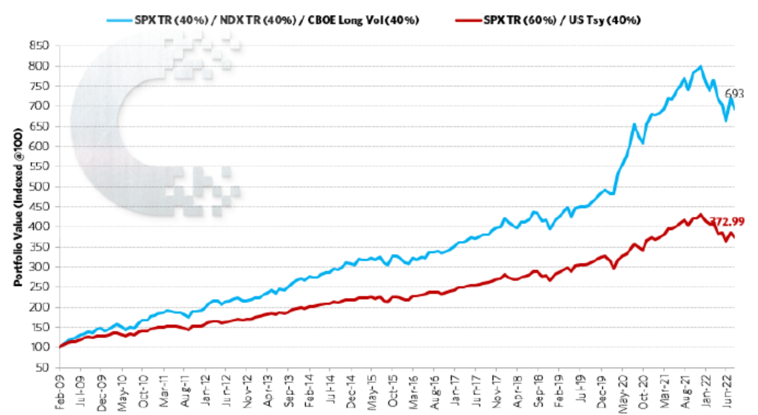
Cash Allocations Non-bank investors globally



Source: J.P. Morgan

The industry standard for risk management (risk reduction), the 60/40 portfolio (60% equities, 40% bonds) is struggling & even through the supposed glory years, it was never the right solution. Don't give away upside to "probabilistically" protect the downside. Explicitly protect the downside, so that you can participate in more of the upside. That is true risk mitigation. What can be done to replace the now discredited portfolio benefit of the fixed income component of the heretofore 60/40? The world at large is quite actively trying to figure out what alternatives exist that can protect their equity/growth allocations. While recognizing the obvious concerns about protecting the 60 (equity), has anybody thought about what the world at large is going to do with the accumulated 40 (bonds) that nobody wants any longer? Worth thinking about. Here is the "Always Good Weather" (AGW) portfolio of 40% S&P, 40% Nasdaq, and 40% CBOE Long Volatility, versus the old standard 60% S&P500 and 40% Fixed Income (Barc Agg). If you are an investment manager, build your portfolio with an emphasis on what you <u>don't know</u>, not what you think you do know. Central bankers should operate the same way, protect against what hurts, don't gamble on what you expect so that you can "***live to fight another day"***

Barbell AGW (blue) vs Balanced 60/40 (red). Compounded lines. March'09-August'22

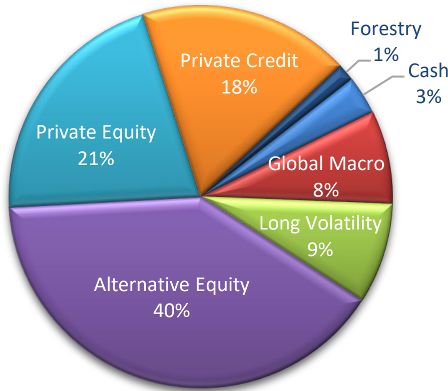


Source: Convex, Bloomberg

The Reference portfolio

Move Asset believes that the multi-strategy portfolio should be measured alongside other globally diverse multi-strategy funds, like the US University Endowments and closer to home the NZ Super Fund deemed the gold standard for Sovereign Wealth funds globally

Multi-Strategy asset allocation



To increase diversification and to efficiently manage private assets, academic literature firmly supports a combination of both public and private assets as an optimal portfolio solution. One of Move's diversification approaches includes tail risk mitigation strategies that offer market asymmetry & allows Move to build a portfolio with an emphasis on what you don't know. That allows Move to own the risk assets both public & private and solve for performance in the up wings, just as much as owning efficient convexity/asymmetry to solve for underperformance in the down wings. With tail risk mitigation strategies in place, GSMP can seek out efficient ways to take risk in the public and private markets. One of the key investment objectives of GSMP is capital preservation, while seeking out best in class managers who can deliver above trend, risk adjusted returns

Managers & partners

Move has spent decades developing a global network of partners and managers from around the world. The investment philosophy is that in order to produce the best returns in each asset class and investment styles' Move's needs to allocate capital to those managers who are best in class, and who are in a unique position to exploit their relevant investment sector. Move does not seek to receive any compensation form any of these managers and partners in order to act first and foremost as a fiduciary to our clients. Seeking out best in class is a primary motivation.

Regards

Michael Carr-Smith
Founder, Move Asset Management