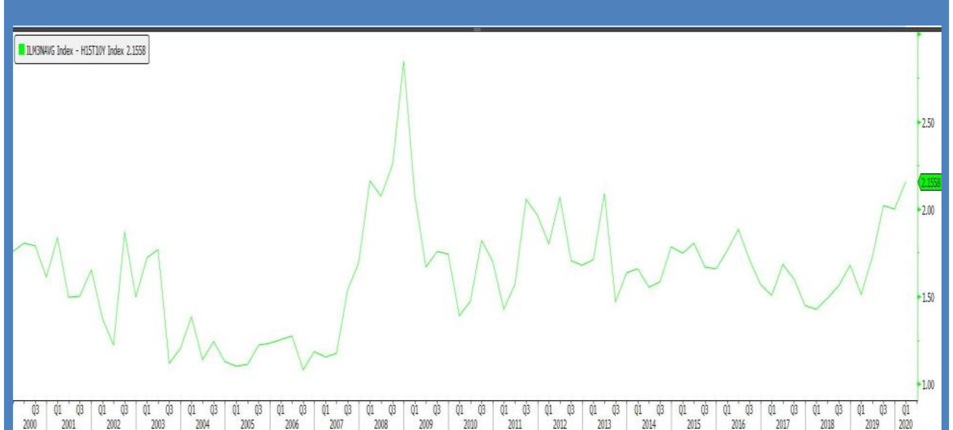
AISM LUXEMBOURG

Newsletter
March 2020

We live in a totally anomalous time that led the Fed governor to radically change his mind within a few days, first declaring on February 28 in a one-paragraph statement that the Fed "will use every appropriate tool and action to support the economy", to then make an extraordinary cut of 50 bps, suggesting that rates could be further lowered on March 18, during the FOMC. An interesting aspect regarding the monetary easing in place since 2019 by the FED is to analyze that it was simultaneously (and partially) offset by selling $ 20 billion of mortgages per month.

One of the card left to play in the Fed's deck is to stop the running off of mortgages from its balance sheet, allowing property owners to really benefit from the reduction in Treasury rates. While it is true that the Treasury Yelds are at historic lows, the mortgage rates are still significantly higher than the lows of 2016 and this in part thanks to the sales of the FED (the graph shows how the spread between the thirty-year mortgages and the Treasury a 10 years and at the highest levels since the Subprime Crisis). In the event that sales should stop Mike Cudzil and Daniel Hyman (portfolio managers at Pimco) expect a reduction in mortgage rates of at least 35 bps, allowing property owners to refinance themselves at lower rates, thus increasing the income and supporting the economy.



Spread between the US 30y fixed mortgage rates and the 10y Treasury yields.
Source: Bloomberg

In our view, the extraordinary cut was a correct measure considering inflation expectations and the inverted yield curve. On the other hand, extraordinary interventions on rates are recorded in periods in which the economic contraction is in the initial phase and can mitigate its size but certainly not avoid it.

Since 1998, it has been the Fed's eighth extraordinary rate cut. What have been the reactions of Wall Street following these cuts? Except for 2008, returns were positive after one month in all other cases. But after 3, 6 and 12 months the average performances are to be forgotten, as can be seen from the following table .

Source: Bespoke Investment Group

Intermeeting Fed Rate Cuts and S&P 500 Forward Performance

						S&P 500 % Change							
Date	FOMC	Rates	Amount	From	To	Prior 2 Weeks	Day of...	Next Day	Next Week	Next Month	Next 3 Mths	Next 6 Mths	Next Year
10/15/1998	Intermeeting	Cut	-0.25	5.25	5.00	-1.13	4.17	0.85	2.96	6.70	18.33	25.92	19.09
1/3/2001	Intermeeting	Cut	-0.50	6.50	6.00	-2.20	5.01	-1.06	-2.54	1.92	-13.89	-8.39	-14.28
4/18/2001	Intermeeting	Cut	-0.50	5.00	4.50	4.01	3.89	1.26	-0.76	3.78	-1.82	-13.30	-11.71
9/17/2001	Intermeeting	Cut	-0.50	3.50	3.00	-7.80	-4.92	-0.58	-3.40	4.93	9.43	12.20	-15.91
8/17/2007	Intermeeting	Cut	*Discount Rate from 6.25% to 5.75%*			-4.14	2.46	-0.03	2.31	2.12	-0.47	-6.64	-11.57
1/22/2008	Intermeeting	Cut	-0.75	4.25	3.50	-6.12	-1.11	2.14	3.95	3.78	4.20	-3.85	-35.88
10/8/2008	Intermeeting	Cut	-0.50	2.00	1.50	-16.16	-1.13	-7.62	-7.83	-3.27	-5.84	-16.22	8.18
3/3/2020	Intermeeting	Cut	-0.50	1.50-1.75	1.00-1.25	-8.58	?	?	?	?	?	?	?
					Average	-5.26	1.20	-0.72	-0.76	2.85	1.42	-1.47	-8.87

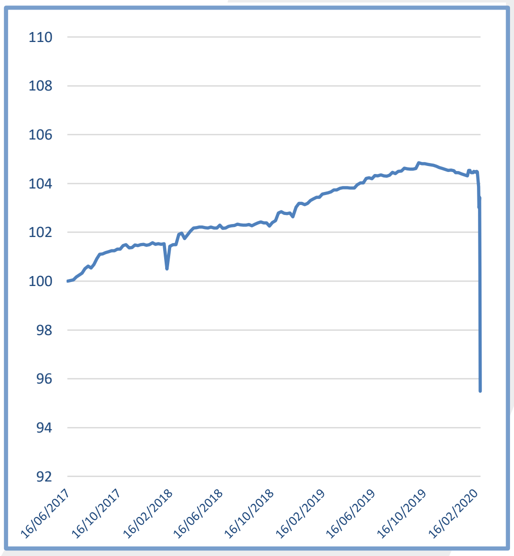
And what about Treasuries? In all cases, after one year, the ten-year yeld has decreased, with a reduced decline compared to the 12 months preceding the cut, but historically the direction has always been clear.

Fed Easing Date of Cut	Yield Change (bp) 126 Days Later	Yield Change (bp) 252 Days Later
02/01/1991	15	-60
04/30/1991	-37	-45
09/13/1991	5	-129
10/15/1998	60	151
01/03/2001	30	-4
04/18/2001	-51	-3
09/17/2001	70	-76
08/17/2007	-79	-86
01/22/2008	62	-96
10/08/2008	-76	-45
Mean	-0	-39

Source: Federal Reserve

Volatility (V2X index) increased to a level near 43% on February 28th, the end of the period considered in this report. The last three times that volatility reached this level were during the DotCom bubble (2001), the Subprime crisis (2008) and the European debt crisis (2011). The spike occurred in the last week of the month, due to fears of a global Virus outbreak. The Fund was low exposed to market (leverage below 1) since the volatility value at the moment of opening the weekly structure on February 21st was close to 16%. The strategy normally implemented during period of drawdown was not convenient due to an inverse long term – short term volatility curve.
The DJ Eurostoxx50 (SX5E) index registered -8.55% in the period. The performance of the YTD index was aligned at -13.5%.

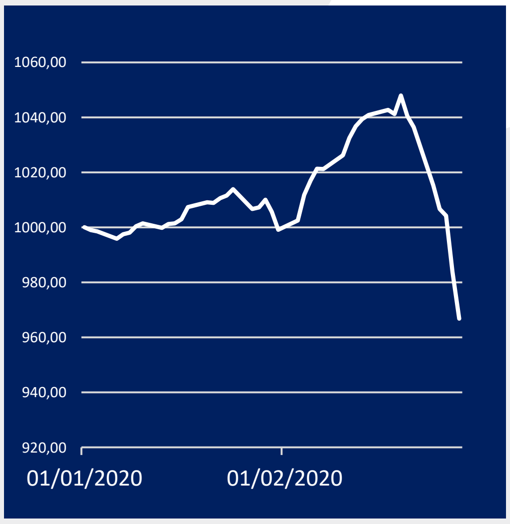
PHARUS AVANTGARDE



Share I - LU1620769817	
Performance	
Last Month	-8.66%
YTD	-8.58%
Since inception	-4.45%
NAV/Share	95.49
Statistics	
Volatility	15.14%
Sharpe ratio	-0.82
Sortino Index	N/A
Average yield	-0.002%
Averarge duration	0.71 years

During the last week of February the spreading of the new Coronavirus outside of China caused the market to switch abruptly into a risk-off mode.
In this environment, US rates dropped sharply and the 10 year rate in particular closed the month at 1.15%, roughly 0.35% lower compared to the January close.
In a related pattern, credit spreads widened by approximately 0.25% on the investment grade side and 0.9% in the high yield space.
The allocation of the fund remained broadly stable over the month, and the decision to maintain a substantial cash buffer proved beneficial when markets started to crash towards the end of the month.

KYRON GLOBAL SMART TREND



Share A1– LU2082325338	
Performance	
Last Month	-3.2%
YTD	3.3%
Since inception	-3.3%
Since inception	966.81
Statistics	
Volatility	13.8%
Sharpe ratio	N/A
Sortino Index	N/A
Max DrawDown	N/A
Worst Month	-3.2%

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Regarding the fund activity, the main focus has been on the Euro side of the investments, with profit taking on some bonds which didn’t offer much in terms of upside and a dynamic adjustment of the currency hedge.

KYRON FIXED INCOME

Share B1 – LU1918787018	
Performance	
Last trimester	1.2%
YTD	1.2%
Since inception	2.7%
NAV/Share	102.73
Statistics	
VaR	0.8%
Ex-Ante Volatility	1.4%
Sharpe Ratio	N/A
Sortino Index	N/A
Average duration	2 anni

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KYRON EQUITY ABSOLUTE RETURN

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Regarding the fund activity, at the beginning of the month we significantly streamlined the exposure in single stocks, focusing on the US market. Then the sudden spike in volatility in the second part of the month provided the opportunity to profit from our cautious stance and add value through a dynamic management of market exposure.

Share A1 - LU1918787364	
Performance	
Last trimester	-0.5%
YTD	-1.5%
Since inception	-1.5%
NAV/Share	984.66
Statistics	
VaR	2%
Ex-Ante Volatility	5.6%
Sharpe ratio	N/A
Sortino Index	N/A

LOW VOLATILITY

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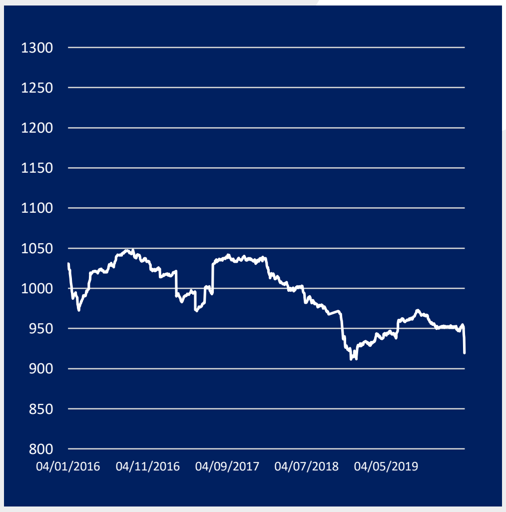
Regarding the fund activity, the allocation has been updated based on the AISM index. The equity exposure has been raised to 25% of the fund while the fixed income exposure where mainly across the US and German government bonds. Commodities have been sold in a profit. The equity exposure is mainly US and EU large cap. The hedging dollar has been reduced further after the strong rise of the EUR vs the USD.



Share I - LU0677960717	
Performance	
Last Month	-3.08%
YTD	-3.35%
Since inception	-8.04%
NAV/Share	919.6
Statistics	
Volatility	4.72%
Sharpe ratio	-0.21
Sortino Index	-0.18
Average yield	1.44%
Avararge duration	1.86 years

KYRON ESG BOND

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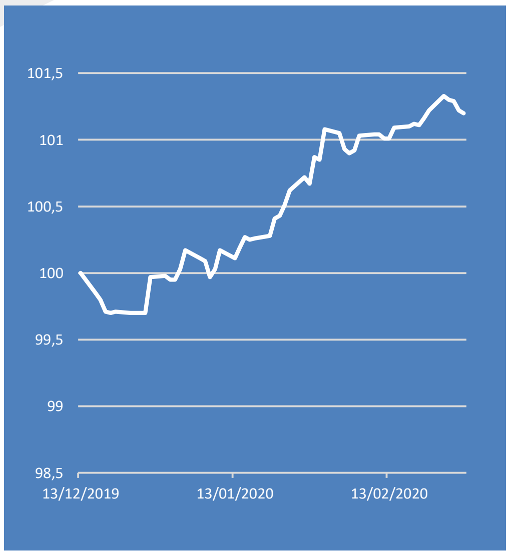
In a related pattern, credit spreads widened by approximately 0.25% on the investment grade side and 0.9% in the high yield space.
Regarding the fund activity, during the period we have been investing some inflows by adding both to existing positions and new issuers such as Tapestry, HSBC, QNB and Greenko.
Moreover, during the initial phase of the crisis, we have promptly removed a short position in US 10 year Treasury futures, raising the duration of the portfolio to about 3.65 years. However the fund slightly suffered due to its roughly 20% exposure to the riskier buckets of the fixed income universe: emerging markets, subordinated debt and high yield.



Share A1 – LU2082324448	
Performance	
Last trimester	1.2%
YTD	1.2%
Since inception	1.2%
NAV/Share	101.2
Statistics	
Volatility	0.8%
Sharpe Ratio	N/A
Sortino Index	N/A
Average duration	3.1 anni

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