BSAMC

Bocconi Students Asset Management Club

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EQUITY & FIXED INCOME FUND

Carlo Villa	TEAM LEADER
Ennio Lamari	ANALYST
Maryam Lamtiri	ANALYST
Francesco Mutolo	ANALYST
Andrea Ricciarini	ANALYST
Chloe Villa	ANALYST
Tiago Viamonte	ANALYST
Engin Yigit	ANALYST

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Introduction

The Equity & Fixed Income Fund started its operations in September 2023, initially focusing solely on U.S. stocks and bonds markets. As of October 2024, the fund expanded its investment geographical horizon, enhancing its flexibility and diversification strategy. The fund aims to provide steady returns through an active management strategy, primarily driven by a value-investing approach in developed markets.

This report encompasses different aspects of our portfolio, including a more detailed fund definition, portfolio performance, macroeconomic analysis of the key markets in which we operate, an outline of our transactions, our risk management approach, and a conclusion focusing on portfolio outlook.

Fund Definition

Our fund targets a 75:20:5 allocation between equity, fixed-income assets, and cash, aiming to maximize return potential while keeping a certain level of stability provided by interest-bearing securities.

In line with our allocation ratio is also the benchmark that we have chosen for our portfolio: "Vanguard LifeStrategy® 80% Equity UCITS ETF - (EUR) Accumulating (VNGA80)". At the beginning of the academic year, this benchmark made up a large portion of our portfolio. However, our main goal is to outperform it by continuously increasing the active portion of our portfolio over time. More precisely, we use the increasing active portion to overweight certain assets included in the benchmark and to add stocks independent from the benchmark.

Consequently, the benchmark serves as a fundament of our portfolio strategy, and we aim to build on that by overweighting and adding stocks to capture additional value. In addition, the reasons for choosing this specific benchmark are the following:

- Full alignment with our allocation ratio between equity and fixed income securities;
- High historical performance (e.g. YTD return net of expenses of 14.36%);
- Relatively low expense ratio of 0.25%;
- Coverage of both developed and emerging markets.

While we do not primarily focus on emerging markets - that is the specific aim of our Emerging Markets Fund - our flexibility allows us to consider investments in developing markets when we identify opportunities that align with our risk-return profile.

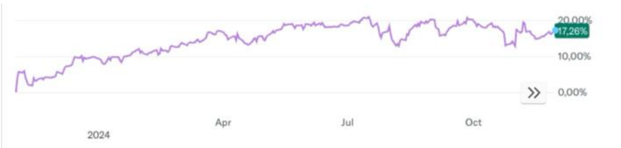
As outlined shortly before, our strategy focuses on developed markets with an emphasis on the U.S., Europe, and Japan. With respect to fixed income, our portfolio currently includes exposure to Treasuries, short-term investment-grade corporate bonds, and a financial credit fund.

Considering the increasing importance of Environmental, Social, and Corporate Governance in the corporate world, we decided to invest solely in companies with adequate ESG-related performance. We consider a company to be adequate in terms of ESG performance when the "Long-term company ESG Score" provided by FactSet is at least 55. This score is based on five factors: Business Model & Innovation, Leadership & Governance, Environment, Human Capital, and Social Capital. Portfolio performance is tracked using Yahoo Finance and additional monitoring is conducted via FactSet.

Portfolio Performance

The fund has shown a strong performance over the reported period, from October 2023 to the present. Currently structured with an allocation of 76% in equities, 20% in fixed-income securities, and 4% cash & cash equivalents, it aligns closely with both our target and chosen benchmark, and it ensures capital appreciation while remaining sufficiently diversified to mitigate risk. To target our 5% cash reserve, we also bought treasury securities, which, due to their high liquidity, are similar to cash but allow us to generate extra returns.

Totaling $1,201,458, the portfolio has experienced an overall 20.1% growth, of which 14.4% during the first academic year and the remaining 5.7% rise from 28th October 2024.



The previous graph shows the fund's performance, without considering ETFs, investment funds, and positions with a 'net' negative value or no shares.

The portfolio’s performance reflects the strategic allocation across eleven key sectors, which we have overweighted compared to the benchmark, including significant exposures in Consumer Discretionary (13.0%), Financial Sector (12.0%), and Computers, Phones & Household Electronics (11.6%).

Considering both returns and the holding period of these stocks in the portfolio, the selected key individual best performers are Alphabet Inc. (+27.18%), Sony Group Corporation (+16.64%), and The Procter & Gamble Company (+11.55%). The latter represents an example of capitalizing on low-volatility stocks (beta of 0.42) that, in our view, have been subject to excessive market corrections. These stocks provide moderate but rapid returns (in P&G's case in two days we generated +4.36%).

It is worth noting that, while the fund is currently actively managed, it remained under passive management from April 2024 to October 2024. After generating a 13.4% return from September 2023 to April 2024, over the following seven-month period, the return was 0.60%, with fluctuation between –2.5% and 3.5%. It is interesting to observe that from May to July, the growth rate was adequate, holding at around 2.5%, and peaking at the end of July. The latter months, instead, were characterized by more volatility, due to the heightened global economic uncertainty. The limited gains achieved by the fund, relative to the benchmark performance (+8.49%) over the same period, highlights the lack of efficiency of this method. This demonstrates that an actively managed fund, later shifted to inactive management, is likely to underperform compared to one designated for passive management.

The transition from the passive phase involved significant changes to the fund’s allocation and required the closure of several positions in companies previously acquired. Notably, Crocs, Inc. emerged as the most profitable, with a return on investment (ROI) of 38.74%. Before analyzing the specific performances, it is important to clarify that the reported data in the following section, reflects only the movements of the portfolio based on the individual stocks held. This implies that the performance of the benchmark - particularly significant during the initial weeks when it represented a substantial portion of our fund's allocation - is not taken into account.

Moving on to the current active management phase of the portfolio, the performance immediately improved from the first weeks. During the first week of operations, from the 28 of October to the 3 of November, the fund recorded a moderate growth of 0.31%, outperforming the benchmark, which declined by 1.49%. The top performer of the week was Comcast Corporation, which showed strong growth in its stock price of +4.56%, thanks to the positive surprise in its earnings reports. On the other hand, Novo Nordisk performed the worst, losing 1.27% of its value.

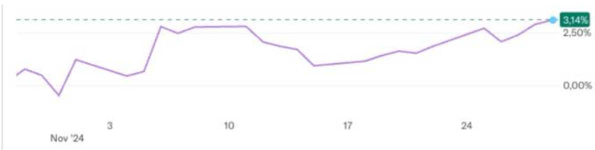
During the second week (4/11 - 10/11), the fund achieved a considerable weekly growth of +1.74%. This performance was driven by the market's bullish momentum following the election of Donald Trump as President of the United States. Sony was the company that benefitted the most from this event, with its stock price soaring by 12.3%, partly attributed to the favorable earnings report. In contrast, Honda Motor plunged 11.52% after posting a disappointing earnings report.

The third week (11/11 – 17/11) was characterized by some disruption in the global market, resulting in the decline of the MSCI World Index by 2.06%. However, thanks to the efficient allocation, the fund's weekly performance was slightly better at -1.59%. The worst performers were Sony, which following the rally of the previous week, saw its stock price drop by 7.82%, and Rio Tinto Group, down by 5.35%. On the other hand, FedEx Corporation had the highest weekly growth, with a +2.86%.

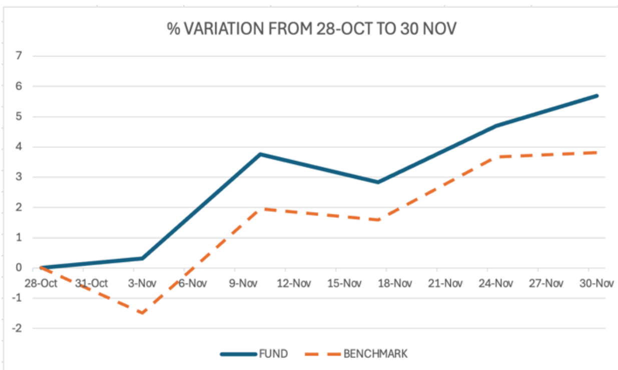
During the fourth week (18/11 – 24/11), the fund recorded a consistent growth of 1.76%, in line with the movement of the benchmark (+2.05%). An honorable mention goes to Lantheus Holdings, Inc., which has achieved an impressive growth of 4.26% since we purchased shares mid-week. Meanwhile, Intesa Sanpaolo had the worst performance of the week, with its stock price falling by 6.83%, following the dividend payout (4.3% dividend yield).

During the fifth week (25/11 – 1/12), the fund delivered a strong performance of +1.24%. It significantly outperforms the benchmark, which had a modest growth of 0.14%. This result was partially driven by Airbus SE, whose stock value rose by an impressive +6.97%. On the other hand, Eni S.p.A ended the week with a decline of -3.66%.

The following graph shows the performance from October 28 to November 30 of the portfolio, based solely on the individual stocks held.



In conclusion, considering the active management phase, the fund achieved an overall growth of 5.69%, significantly outperforming the benchmark, which recorded a performance of +3.81%. The graph shown, illustrates the weekly estimated changes in the fund's value, in comparison to the benchmark's performance.



Macroeconomic Analysis

Global Overview

Despite ongoing tensions in the Middle East and political polarization in the U.S., the American economy is on track for a soft landing, which seemed unlikely at the start of 2024. With inflation under control, the Federal Open Market Committee initiated a cycle of interest rate cuts, beginning with a 50-basis point reduction in September, bringing the federal funds rate down to 5%. This move has sparked optimism across markets, pushing asset prices higher. Analysts now project a 2.6% GDP growth for 2024, up from the earlier 2.4% forecast, driven by robust consumer spending, stronger household finances, and a solid labor market.

Looking ahead, gradual rate cuts are anticipated, potentially lowering the Fed’s target rate to around 3.00–3.25% by 2025. Following his recent re-election, Donald Trump has proposed a sweeping economic agenda, including tariffs on all imports and significant tax cuts. While he argues these policies will boost domestic production and protect U.S. jobs, some analysts warn that his tariff plan could rekindle inflation and disrupt the Fed's interest rate trajectory.

On the other hand, China, still fighting to come back from the 2020 COVID-19 pandemic that caused a strong economic blow, set a 5% annual GDP growth target. However, challenges faced in meeting this goal led to a GDP growth of 4.6%, surpassing analyst expectations but still falling short of the target. Recent years have seen China grapple with a weak real estate sector, waning domestic demand, declining consumer confidence, and slower exports. In the past week, China's long-term bond yields have fallen below Japan’s for the first time. Going from 4% in late 2020 to 2.21% on the 29th of November. Beijing has therefore had to cut interest rates in an attempt to boost its flagging economy.

However, to solve these issues, the Central Bank of China has recently introduced significant monetary measures to address these economic challenges. The recent announcement of a strong monetary stimulus led to a strong boost in Chinese equities and brought strong optimism to the markets allowing an increase in consumer confidence. However, uncertainty lingers, as the specifics of a crucial upcoming fiscal stimulus package remain unannounced. Market concerns focus on whether the fiscal response will be sufficiently efficient and large to tackle all of China’s underlying economic issues.

In the Eurozone, GDP Growth has been declining dramatically since the late 90s. In vain attempts to restore its productivity, ECB president Christine Lagarde has announced the need to address the productivity gaps by implementing structural reforms along with large public investments, however, these have not been well welcomed by all the EU members, so no action yet. Analysts predict that the Eurozone will be dropping to under 2% inflation as soon as February, suggesting signs of a cooling economy.

Furthermore, a new uncertainty arises from the recent elections in the United States. Trump's protectionist measures include a 10-20% tariff on all European imports. In 2023, The United States was the largest partner for EU exports of goods so these new tariffs could represent particularly bad news for the European economy, especially for trade-dependent sectors such as autos and chemicals, which rely heavily on U.S. exports. Analysts expect the ECB to respond with faster rate cuts in 2025.

Relevant Events

Recent events have significantly impacted global markets, shaping many of our investment decisions. This section examines recent disruptions to the global economy and trade, highlighting their influence on our investment strategy.

BOJ Rates decisions: The Bank of Japan increased rates for the first time in 17 years from 0 to 0.25% last July. This unexpected BOJ shock led to a sudden appreciation of the yen and consequently a crash that led the benchmark to shed some 7,600 points during a three-day losing streak. Since then, the Nikkei 225 index has reached pre-shock levels. However, markets are not immunized yet as the Bank of Japan is expected to raise rates again at its December meeting as a strengthening economy and concerns over the depreciating yen prompt policymakers to act. According to Reuters, the BOJ is also likely to keep rates higher due to Donald Trump's November 5th victory as markets brace for a set of inflationary policies under the new administration. Thus, the median prediction for the end-of-year rate was 25 basis points higher at 0.50%. These expectations have diminished investor optimism in the Japanese markets, thus prospering market volatility. Our long position in the local market may therefore be at risk given that a typically higher rates environment leads to a lower stock price. However, it is important to note that our Japanese investments are principally in the automotive industry which may react differently than the rest of the market based on demand.

FED Rates Decision: In a follow-up to September's half percentage point cut, the Federal Open Market Committee once again lowered its benchmark overnight borrowing rates by 25bps to a target range of 4.50%-4.75%. Markets had expected the move and stocks closed positively after the meeting wrapped up on November 7th. This unanimous decision to cut rates follows the Fed's statement that conditions have eased and that the unemployment rate remains low. The economy has also continued to expand at a solid pace and inflation has fallen to 2.4%, bringing it close to the Fed's 2% target. Markets widely expect the Fed to cut rates for the third time this year at its December meeting. JP Morgan estimates a 25bp cut. However, the question is what the Central Bank will do next year. Indeed, recent sticky inflation and evidence of the US economy growing at a solid pace have raised doubts that the Fed will bring down rates as fast as previously expected. In September the Fed projected four interest rate cuts next year. Today, markets project roughly two cuts in 2025.

American Elections: Last week, Donald Trump won the elections for the second time, becoming the 47th president of the United States. Markets immediately responded – U.S. large-cap stocks, small-cap stocks, and bond yields all sharply increased. Indeed, stocks rallied strongly on speculations that President-elect Donald Trump would implement further tax cuts and deregulation. Hence the Republican sweep, along with Thursday's rate cut and Friday's positive consumer sentiment survey, led the S&P500 to grow an impressive 4.66%, making this week the index's best performance all year. Bitcoin was also in the green and surged to an all-time high of $75,000 as Trump's elections promise to prioritize cryptocurrency. On the other side of the Atlantic, markets dropped as investors weighed the impact of Trump's potential tariff policies on the eurozone. Economists predict the euro could weaken against the dollar due to tariffs on foreign goods.

Germany's Political Crisis: On November 7th, Germany's three-way coalition collapsed after three years following a dispute over how to stop a multi-billion deficit in next year's budget. This has thrown Europe's largest economy into turmoil and now seems to be holding the continent back. This crisis has been detrimental to German shares. Banking stocks are facing additional pressure as the situation complicates potential merger situations while the automotive industry is struggling with transition challenges. These uncertainties have created volatile conditions for traders in the German markets. Although the DAX 40 remains within its long-term uptrend, the index is showing increased sensitivity to political developments. Furthermore, the negative German outlook has impacted sentiment on the euro which is already facing pressure due to Donald Trump's presidential election victory.

Looking Ahead

Uncertainty looms in the final quarter of 2024 and into 2025. With Trump's recent victory, we expect significant market implications, particularly in shaping Fed policy. His administration's focus is expected to lead to higher inflation and growth, prompting the Fed to maintain higher rates to prevent the economy from overheating. Tariffs could slow European growth, which may strengthen the dollar against the euro, potentially bringing the pair to parity. Investors in German markets (and more generally in Europe), will need to monitor these global factors, economic indicators, and key policy outcomes. Meanwhile, BoJ Governor Kazuo Ueda stated to be less concerned with U.S. developments, noting that the risk from overseas developments appears to be shrinking. Rates will be increased if Japan's economic forecasts align with expectations.

Portfolio Updates

At the beginning of the new period, we decided to rebuild our current portfolio and start from scratch. This was mainly due to two reasons. Firstly, it allowed us to realize the gains made in the previous term. Secondly, it provided us with the freedom to incorporate new investment ideas and approaches. The basis of our new portfolio is the benchmark "Vanguard LifeStrategy® 80% Equity UCITS ETF ". Throughout the period, we gradually decreased the portion the benchmark accounts for in the portfolio through the acquisitions of stocks and fixed-income securities. For this, we consider company-specific factors such as financial health, fundamentals, and relevant valuation metrics, but also macroeconomic factors and the overall fit in our diversified portfolio. Here a description of selected transactions.

Investment Summary: Intesa Sanpaolo

Intesa Sanpaolo is a leading Italian bank known for its comprehensive financial services and efficient operations, maintaining one of the strongest efficiency ratios (38.5%) among European peers. Its focus on cost management and digital transformation allowed the bank to build a competitive edge.

Key fundamentals: Intesa's EPS growth has been robust, with a 3-year growth rate of 111.28%, significantly outpacing the peer median. Additionally, the bank offers an attractive dividend yield of 8.40%, higher than the sector median, providing strong income potential.

Valuation Multiples: Trading at a forward P/E of 7.94x, Intesa is attractively valued compared to its earnings growth prospects and the ones of its peers. This, combined with a reasonable P/BV ratio, signals at least a fair valuation if not a slight undervaluation.

Strategic Rationale: We added Intesa Sanpaolo to increase our portfolio's exposure to the European market and financial sector. Its solid fundamentals, appealing valuation, and high dividend yield offer both growth and income, aligning well with our diversification goals.

Investment Summary: Microsoft Corporation

Microsoft is a global technology leader with diverse revenue streams, including software, cloud computing (Azure), and productivity tools (Office 365). Its margins reflect efficient operations and strong profitability compared to peers.

Key fundamentals: Microsoft's Free Cash Flow generation is robust, with an expected FCF of $66.6 billion in FY2024, significantly outpacing its peers. This cash flow strength is proof of Microsoft's ability to invest in growth initiatives and return capital.

Valuation Multiples: Microsoft trades at a forward EV/EBITDA multiple of 20.76x (FY1), which is comparable to that of its peers, despite its superior profitability and market positioning. Its forward P/E ratio of 32.26x is also in line with peers' average and, in our view, completely justified by strong growth prospects and financial stability.

Strategic Rationale: We added Microsoft to our portfolio following a 4.6% post-earnings price drop. Despite positive results, they were slightly below market expectations, resulting in a short-term price correction we capitalized on. The stock has since started recovering, reflecting market confidence in Microsoft's fundamentals. Additionally, with Trump's election, Microsoft may benefit from pro-business policies and deregulation, potentially supporting its expansion and market sentiment.

Investment Summary: ENI S.p.a**.**

Eni S.p.A. is an Italian multinational energy company, which operates in the oil and gas industry and is a leader in the transition to sustainable energy, aiming to become carbon-neutral by 2050.

Key Fundamentals: ENI exhibits strong financial strength, a solid balance sheet, and stable cash flows generated from its well-established oil and gas businesses. ENI's prudent management of its debt position and cash flow streams, even amid market fluctuations, strengthens its position in the energy sector and allows it to adapt effectively to industry transitions.

Valuation Multiples: Eni P/E ratio shows that it's slightly undervalued; this reflects industry volatility and the uncertainty towards energy transaction.

Strategic Rationale: Eni's commitment to sustainability within the oil and gas industry aligns with our ESG priorities, making it well-suited for long-term growth despite volatility in the energy sector. With recent acquisitions expanding Eni's portfolio, we see a potential upside in earnings as these investments mature, especially as energy markets stabilize.

Investment Summary: Betsson AB

Betsson AB is a leading online gaming company, offering a variety of products, including sports booking, casino, and poker. Its proprietary Techsson platform allows it to provide a personalized gaming experience across multiple regulated markets, which gives it a technological advantage. Betsson's geographical diversification across Latin America, Western Europe, and other regions reduces reliance on any single market and spreads regulatory risk.

Key Fundamentals: Betsson maintains a net cash position and a high equity-to-assets ratio, providing a strong financial base to fund growth or withstand downturns.

Valuation Multiples: Betsson trades at an EV/EBITDA of 6.23x and a P/E of 11.21x based on actuals, which are lower than its peer averages, indicating potential undervaluation.

Strategic Rationale: Betsson is relatively uncorrelated with broader market cycles, as its performance is more influenced by regional regulatory changes than by general economic downturns. This distinct risk profile, combined with attractive valuations, makes Betsson a valuable addition to a diversified portfolio, particularly for those seeking growth potential in regulated markets.

Investment Summary: Airbus SE

Airbus represents the largest aeronautics and space company in Europe. Its products range from commercial aircraft and helicopters to defense and space-related aircraft. The company is well-known for its innovative approach.

Key Fundamentals: Airbus has a stable financial position, characterized by strong revenues with a significant sales pipeline (high number of orders) and stable cash flows. Margins are solid and significantly better compared to Boeing, but lower than some other players (however, please note the limited degree of comparison for these peers).

Valuation Multiples: Compared to its peers (mostly Boeing, but to some degree also Lockheed Martin, Embraer, and Bombardier), Airbus has the highest EV/EBITDA and P/E multiple. This is not surprising considering that Boeing, as the main competitor, is currently facing operating losses and negative net income.

Strategic Rationale: The aerospace market has been characterized by a duopoly between Airbus and Boeing for a long time now. Considering the significant problems that Boeing as the main competitor is facing (e.g. with the 737 Max series), the stable position of Airbus, and the market situation (duopoly), an investment in Airbus seems promising. With a market share of 62% in the narrow-body aircraft segment and deliveries as well as orders significantly higher than Boeing, the future outline seems attractive. In addition, the company is continuously aiming to improve its sustainability impact, for example by increasing engine efficiency through innovations.

Investment Summary: Procter & Gamble Co

Procter & Gamble (P&G) is a leading American multinational consumer goods company known for its diverse portfolio of brands, which specializes in personal care, hygiene, and household products.

Key fundamentals: P&G enjoys great financial strength, underpinned by excellent cash flow generation and a very solid balance sheet. Thanks to this financial stability, the company can invest in innovation, marketing, and strategic acquisitions that strengthen its position and enable long-term growth.

Valuation Multiples: P&G has traditionally traded at a premium compared to the average P/E ratio for the consumer goods sector (currently at 28.92x). This premium valuation multiple is justified by the strong brand equity, its market leader position, and stable cash flow, which make the company resilient across most economic cycles.

Strategic Rationale: P&G's strong exposure to the U.S. market (about 50% of its revenues) and primarily domestic production make it well-positioned to capitalize on increased consumer spending in a favorable policy environment. Its track record of steady earnings and brand loyalty provides a stable foundation, potentially driving revenue growth if U.S. consumer sentiment improves.

Investment Summary: Toyota Motor Corp and Honda Motor CO Ltd

Honda and Toyota are two of the world's largest automakers, both Japanese. They have a strong focus on engineering and innovation and are leaders in sustainable mobility.

Key Fundamentals: Toyota is well-capitalized and has a strong global presence, with promising initiatives in EV and hydrogen initiatives that align with sustainable trends.

Valuation Multiples: Toyota trades at a P/E ratio of 7.23x, offering a more favorable valuation relative to Honda's 6.76x, and its EBITDA margin (16.6%) and EBIT margin (11.9%) are superior to Honda's (13.9% and 6.6%, respectively), reflecting better operational efficiency and profitability.

Strategic Rationale: We halved our position in Honda ($25000, with a capital loss of $561) to invest that amount in Toyota, based on comparative strength in fundamentals and valuation. On top of that, this differentiates our Japanese exposure, which we feel positive about due to promising economic signals. The changeover from Honda to Toyota, which is a better player in the Japanese auto sector, improves portfolio stability, particularly now that the European market remains so challenging.

Investment Summary: Algebris IG Financial Credit Fund

The Algebris IG Financial Credit Fund is an actively managed fund, launched in November 2019. The fund focuses on investment-grade securities (rated BBB- or above) issued by financial institutions globally.

Key Fundamentals: The fund has a diversified portfolio of 131 bonds from 40 issuers, predominantly financial institutions. The capital structure is heavily weighted toward subordinated debt (60%), with an additional exposure to senior debt (11%) and Additional Tier 1 instruments (10%). The geographic allocation emphasizes European issuers, including Italy (16%), Spain (15%), and the UK (15%). As of October 2024, the fund offers a gross current yield, yield to call, and yield to worst of 4.7%, reflecting strong income potential. Its effective duration is 3.7 years, balancing interest rate sensitivity with stable cash flows.

Valuation Multiples: The fund capitalizes on the persistent premium of financial credit spreads over other IG fixed-income segments, offering a yield advantage. It aims to deliver an attractive income level and modest capital appreciation, supported by sustainable investment strategies aligned with ESG principles. The fund emphasizes medium-to-long-term investment horizons, with systematic currency hedging to mitigate exchange rate risks.

Strategic Rationale: As part of our investment strategy, we decided to purchase 40k of this bond. We are indeed very exposed to the stock market, and we decided to balance our portfolio by investing in a bond with a pretty good rating, therefore diversifying risk while still being exposed to good returns.

Investment Summary: iShares Treasury Bond 0-3 Month UCITS ETF and iShares Short Duration Corporate Bond ETF

The iShares Treasury Bond 0-3 Month ETF is a fixed-income ETF that provides investors with exposure to short-term U.S. Treasury securities with maturities from 0 to 3 months, while the iShares Short Duration Corporate Bond ETF is a fixed-income ETF designed to provide investors with exposure to a portfolio of high-quality, short-duration corporate bonds.

Key Fundamentals: The first ETF focuses on Treasury bills with an extremely short duration, making it highly insensitive to interest rate changes. U.S. Treasury securities are considered among the safest investments globally, being backed by the U.S. government.

The second ETF focuses on investment-grade corporate bonds, typically with an effective duration of fewer than three years, ensuring a balance between yield and credit risk, and providing regular income distributions.

Valuation Multiples: The YTM for the first ETF is typically aligned with short-term Treasury bill yields: as of the recent market, this could range from 4%-5%, reflecting the prevailing interest rates on U.S. short-term debt. As for the second ETF, its yield is attractive for conservative investors looking for moderate income with limited exposure to interest rate volatility. It has a YTM of 3.5% and an effective duration of 2.1 years.

Strategic Rationale: We decided to invest in the two ETFs because we wanted to reduce the duration of our portfolio while investing in some safe assets because the current yield on longer-term bonds does not reflect the risk of persistent higher inflation in the medium and long run. Aside from that, the ETF's underlying assets and structure provide high liquidity, allowing us to manage short-term cash flow needs.

Risk Management

In managing the risks associated with our Equity and Fixed Income Fund, we have adopted a rigorous and comprehensive approach to diversification and risk mitigation. Our portfolio is strategically diversified across geographical regions, industries, and companies to minimize exposure to localized economic volatility. Additionally, we have carefully avoided investments in high-risk countries, sectors prone to extreme cyclicality, and companies with very low market capitalizations or elevated default risks. Our investment philosophy prioritizes companies with strong financial fundamentals, reducing volatility risk associated with pattern strategies. This disciplined approach allows us to deliver sustainable returns while safeguarding our capital and minimizing volatility and extreme events.

Portfolio and Benchmark Betas

Throughout the period, we calculated our portfolio's Beta by employing the weighted average of the adjusted (Bloomberg) Betas of all individual assets, with regressions conducted against the MSCI AC World Index. Our portfolio achieved a Beta of 0.71, closely aligning with the Beta of our benchmark, the Vanguard LS 80% Equity UCITS ETF EUR Acc, which registered an adjusted Beta of 0.70. We are pleased with these results, as they demonstrate our ability to outperform the index while maintaining a comparable level of market correlation.

Value at Risk (VaR) Portfolio vs Benchmark

Recognizing that volatility and market correlation are only part of the risk landscape, we expanded our analysis to include Value at Risk (VaR) calculations, which capture exposure to risks associated with higher moments of the return distribution, such as skewness and kurtosis. Using the historical method and one year of daily return data, we calculated a one-day VaR of -0.66% for our portfolio, equating to approximately $7,740.22 at a 95% confidence level. In comparison, the benchmark ETF recorded a higher VaR of -0.71%. These results are a testament to our ability to outperform the benchmark while maintaining lower exposure to tail risks, demonstrating that our fund is better positioned to withstand potential extreme market events or losses.

Conclusion

To conclude, our recent portfolio adjustments reflect responses to the currently evolving global economic landscape. Significant events, such as interest rate changes in the U.S. and Japan, have reshaped market dynamics, prompting us to adapt our holdings accordingly.

The unexpected rate hike by the Bank of Japan from 0% to 0.25% triggered a revaluation of our Japanese investments. To strengthen our portfolio's stability in this region, we halved our position in Honda in favor of Toyota. Toyota's superior fundamentals, including higher margins, strong global presence, and leadership in sustainable mobility initiatives, align better with our long-term investment goals amid Japan's tightening monetary policy.

Meanwhile, U.S. equities experienced a rally, supported by rate cuts and market optimism following the presidential elections. To reduce overexposure to market cycles and enhance diversification, we added stocks such as Betsson to the portfolio. Its geographical diversification across Latin America and Europe, along with its lower correlation to U.S. market performance, provides a distinct risk profile.

We maintain a positive sentiment on the banking sector, especially in Europe, which we believe is undervalued given its strong fundamentals and solid returns.

Our approach has enabled us to significantly outperform the benchmark (5.7% vs. 3.8%) while maintaining similar risk and volatility levels, showcasing the success of disciplined fundamental analysis.

Looking ahead, we intend to close a few positions and reinvest the proceeds into the benchmark while keeping the portfolio largely unchanged. This strategy will allow our current investments to mature and deliver returns. From the start of the second semester, beginning in February, we anticipate reassessing and adjusting the portfolio, with a focus on investments increasingly influenced by political developments and policy decisions rather than monetary policy, which has been the primary driver in recent time