



Lethame Capital Management

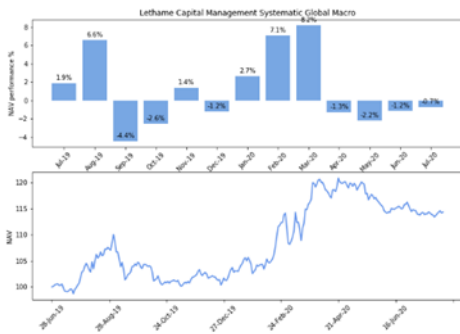
Technology : Research : Investing

Program Update June 2020

	1 month	3 month	YTD	Inception*
Lethame Capital Management	-0.7%	-4.9%	12.7%	14.3%

This commentary refers to the performance of the strategy of my personal investment vehicle, please see disclaimer. *System running from 1st July 2019.

"Trading is a waiting game. You sit and wait and make a lot of money all at once. The profits tend to come in bunches. The secret is to go sideways between the home runs, not to lose too much between them" - James DiMaria



The portfolio underwent significant change in positioning during the July as signals got stronger across asset classes. During this process the strategy's drawdown continued although the degree of downside was limited.

One of the dominant factors during the month was the weakness in the US dollar and this was confirmed each of the currencies the system trades went from flat to long at some point during the month. This position adjustment meant there was limited contribution from FX.

The interest rate complex made a positive contribution to system performance. Profits were made on both Eurodollars and T-Bonds as the market adjusted to testimony from Federal Reserve Chairman Jerome Powell's reiteration of the idea that the Fed wasn't considering raising rates saying "we're not even thinking about thinking about thinking about raising rates" adding a "thinking about" to his June testimony for good

measure. 10 year real interest rates reached a record -1% as the nominal yield approached recent lows.

Metals markets were more mixed. The system made good profits on its gold position which was increased during the month. The spot gold price finally exceeded its record previously set back in 2011 to reach \$1,983.45 during the month. An interesting observation from @lukegromen puts this move into perspective "At the 1980 gold peak, the market value of US official gold was 133% of foreign held UST's outstanding. Today, the market value of US official gold is ~6% of foreign held USTs outstanding."

Profits made in gold were offset by a significant loss on the short Platinum position. Having lagged behind the rally in other precious metals Platinum played catch up during the month. Having seen significant weakness on COVID related fears around the automotive sector, one of the key industrial uses for platinum where the metal is used to reduce harmful emissions. The sector corresponds to approximately 40% of industrial demand for the metal. More recently this has been offset by fears over the COVID related shutdown in South Africa which accounts for 70% of global production. Some analysts are forecasting South African production could be down as much as 30% this year. While the position was one of the best performing positions last month the signal deteriorated sufficiently that the position was closed during this month.

The systems agricultural commodity exposure saw losses on wheat which rallied strongly on expectations of lower world wheat harvests the systems position was reduced but it still made the largest negative contribution. This was offset by profits

	<p>Winning positions Bitcoin S&P 500 Corn</p> <p>Losing Positions Wheat Platinum West Texas Intermediate</p>	<p>Month End Risk Overview</p> <table border="1"> <tr> <td>30 Day VaR at 99% Confidence</td> <td>10.40%</td> </tr> <tr> <td>Margin to Equity</td> <td>10.70%</td> </tr> <tr> <td>Max Drawdown</td> <td>9.0%</td> </tr> </table>	30 Day VaR at 99% Confidence	10.40%	Margin to Equity	10.70%	Max Drawdown	9.0%
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contributors last month when it experienced a countertrend rally. During July the contract made new lows as good weather increased the possibility of a record U.S. yield and its downtrend was reestablished.

The biggest move of the systems positions in percentage terms was Bitcoin which rallied 25% during the month. The market was encouraged by the announcement by the Office of Controller of the Currency that U.S. banks have the authority to provide fiat bank accounts and cryptocurrency custodial services to cryptocurrency businesses.

In our recent paper "QE, money creation and the banking system" we examine where authorities have got to with unconventional monetary policy and the implications this might have for investment portfolios. This paper can be found at <https://lethamecapital.com/research>. Lethame Capital was established to create a vehicle that offered a diversified

exposure to multiple return streams but also a structure with the ability to dynamically capture change. The paper examines a number of arguments that suggest the lessons of history is developed economies are at a point in the debt cycle that such change is likely. The Artemis Capital Management paper "The Allegory of the Hawk and Serpent"¹ is highly recommended for its insight into the type of portfolio an investor would need in order to weather any environment over a 100 year time horizon. A key building block of this portfolio would be the type of framework we have put in place.

While it isn't possible to predict what the outcome is likely to be, we believe that change requires movement even if its not clear as to the direction. A key requirement in designing the strategy was that the vehicle should be capable of delivering optionality to that change.

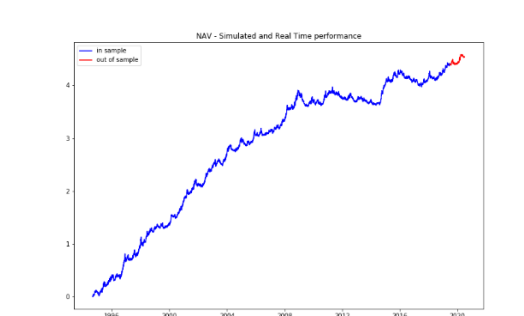
¹ Cole, C.R. (2020) "The Allegory of the Hawk and Serpent" Artemis Capital Management L.P.

System Management

Lethame Capital's systematic investment program is designed to provide exposure to a diversified range of return streams. The program is calibrated so that it scales back the risk it takes should the instruments it trades exhibit an unusually high level of co-movement indicating that markets are being driven by a single underlying factor and making the program more vulnerable to a reversal of that single factor.

The positively skewed expectation of strategies of this nature is many small losses and a smaller number of large profits. As such our observation is the system will suffer losses as much as half of the time. The dynamic nature of the strategy introduces a convexity to the payoff which has similarities to an option position. The observation so far of larger monthly profits than the smaller monthly losses is encouraging in that it consistent with the profile we set out to achieve.

Complete Time Series of Backtested and Live Performance



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
1995	-6.22%	1.26%	3.89%	-0.86%	11.91%	3.79%	-3.36%	1.40%	2.05%	6.44%	2.76%	5.13%	32.95%
1996	1.24%	-10.70%	2.95%	2.94%	0.90%	0.80%	-6.01%	6.72%	10.75%	14.04%	14.10%	-11.42%	23.32%
1997	5.57%	-6.37%	3.65%	-0.50%	-0.11%	0.23%	15.02%	-11.24%	2.15%	4.16%	7.54%	7.50%	28.61%
1998	2.24%	-3.35%	5.53%	0.79%	7.55%	3.52%	1.94%	9.77%	-1.57%	-2.77%	-0.91%	6.44%	34.61%
1999	0.20%	3.76%	-3.53%	-2.48%	5.46%	-3.52%	-2.55%	-0.80%	1.10%	0.49%	1.60%	4.96%	4.49%
2000	4.02%	10.30%	-1.80%	1.04%	-2.40%	-1.64%	6.62%	0.83%	4.48%	5.90%	5.15%	6.24%	46.64%
2001	6.37%	2.46%	12.99%	-8.17%	1.22%	1.82%	6.26%	1.23%	10.07%	6.16%	-12.06%	3.81%	33.89%
2002	-1.64%	0.23%	-3.68%	3.40%	0.86%	10.37%	4.48%	4.76%	7.58%	-4.05%	0.48%	10.70%	37.25%
2003	2.48%	2.91%	-3.93%	4.08%	1.88%	0.02%	-5.52%	0.09%	3.99%	2.31%	3.09%	9.73%	22.03%
2004	4.55%	7.22%	3.33%	-9.04%	-1.03%	-0.71%	0.21%	1.44%	2.50%	4.57%	7.43%	5.91%	28.33%
2005	-4.64%	-0.37%	-4.62%	1.88%	5.48%	2.03%	-3.42%	3.17%	-1.45%	4.85%	11.99%	-4.48%	1.77%
2006	3.31%	-5.19%	1.58%	5.94%	-0.27%	-5.69%	-0.05%	2.98%	-1.23%	1.56%	5.30%	-1.76%	5.91%
2007	0.92%	0.17%	-1.81%	7.17%	-0.94%	2.51%	0.14%	-1.84%	7.40%	4.16%	1.16%	0.07%	20.24%
2008	7.61%	19.59%	-3.82%	-1.36%	-0.12%	5.42%	-5.84%	2.52%	9.53%	7.28%	6.74%	2.94%	60.19%
2009	-3.78%	6.74%	-8.21%	-4.40%	-4.77%	-1.80%	-1.67%	1.96%	4.56%	-1.60%	11.02%	-5.80%	-15.47%
2010	-3.44%	-2.30%	5.89%	1.62%	-6.05%	1.07%	-1.24%	0.97%	7.03%	8.05%	-5.21%	8.90%	14.49%
2011	2.30%	-0.34%	-1.11%	10.41%	-8.68%	-3.67%	3.87%	-2.30%	0.74%	-6.58%	-1.78%	-1.23%	-10.25%
2012	-1.72%	2.79%	-3.48%	-2.04%	6.59%	-2.02%	6.77%	-5.25%	-3.20%	-4.24%	-1.88%	1.87%	-6.57%
2013	4.67%	-0.55%	2.27%	0.02%	-2.28%	0.88%	-3.96%	-0.38%	-3.39%	-1.58%	2.87%	4.48%	1.16%
2014	-6.10%	-1.04%	-0.61%	-0.76%	2.43%	-0.14%	-1.86%	3.92%	16.43%	3.98%	9.81%	1.36%	28.85%
2015	10.92%	-0.01%	4.61%	-4.37%	2.66%	-2.29%	12.73%	-2.38%	0.03%	-4.05%	11.60%	-5.73%	17.48%
2016	3.72%	1.16%	-5.27%	-5.66%	-0.41%	-0.20%	3.01%	-0.22%	-5.25%	-3.68%	1.82%	0.05%	-10.99%
2017	-4.77%	3.19%	-4.84%	-2.14%	-1.51%	-1.51%	3.78%	5.96%	-4.30%	3.01%	1.13%	4.37%	1.84%
2018	9.30%	-7.91%	-1.52%	-0.88%	-3.02%	1.38%	-1.37%	5.56%	5.28%	2.46%	-2.98%	8.19%	13.87%
2019	-4.00%	8.61%	1.90%	4.90%	-2.39%	0.49%	1.90%	6.60%	-4.40%	-2.60%	1.40%	-1.20%	10.84%
2020	2.70%	7.10%	8.20%	-1.30%	-2.20%	-1.20%	-0.70%						12.70%

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