



Lethame Capital Management

Technology : Research : Investing

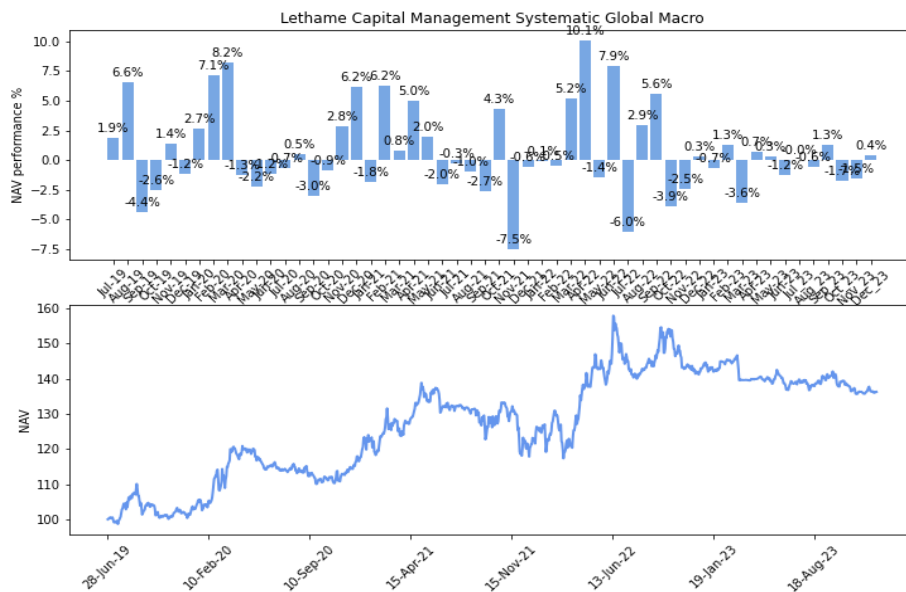
Program Update – Q4 2023

	Annualised Return*	Standard Deviation	Sharpe Ratio	Maximum Drawdown	Average Correlation
Lethame Capital Management	7.6%	13.0%	0.52	15.8%	-
S&P 500 Index	8.7%	20.6%	0.38	42.6%	0.0%
60/40 portfolio	4.4%	12.4%	0.28	30.6%	0.0%

*Returns since inception

This commentary refers to the performance of the strategy of the personal investment vehicle of Piers D. Watson, please see disclaimer.

“Experience is what you get when you didn’t get what you wanted” - Howard Marks¹



Performance Review 4Q 2023

Lethame Capital Management's (LCM) Systematic Global Macro Program reported a -2.9% return in the Fourth Quarter of 2023, in stark contrast to the 10% surge observed in the S&P 500 Index. The year-to-date performance for LCM's strategy reflected a -5.5% return. The SG CTA index, a benchmark for the CTA industry, experienced a negative return for the year of -3.1%, while the SG Trend Index returned -4.16%.

Notably, the lackluster performance of CTAs in 2023, especially when juxtaposed with the thriving equity markets, marked a significant departure from the very positive outcome in 2022. For instance, the S&P 500 future yielded an impressive +21.3% return for the entire year of 2023.

The fourth quarter witnessed substantial movement in many markets. Six out of the twenty instruments traded by LCM experiencing deviations greater than 3 standard deviations (s.d.). Gold

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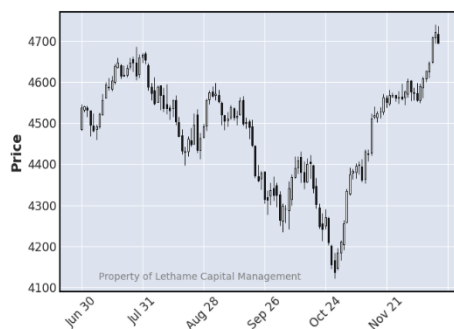
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emerged as the best risk-adjusted performer (+4.7 s.d.), trailed by the S&P 500 (+4.3 s.d.), British Pounds (+3.8 s.d.), and US 2 Year (+3.3 s.d.), as well as German Schatz (+3.2 s.d.). The singular instrument displaying 'large' negative risk-adjusted returns was crude oil (-3.1 s.d.).

Regrettably, in terms of strategy performance, these significant shifts ran counter to the trends observed in the previous quarter. An illustration of this countertrend behavior is evident in the performance of the S&P 500 future, which declined by 4.3% in the third quarter only to rebound with a 9.6% gain in the fourth quarter.

S&P 500 - down Q3 up Q4



The onset of an upswing in mid-October, coupled with a noteworthy momentum in December, was propelled by signals from the Federal Reserve's dot plot, indicating a shift towards a more dovish stance and anticipating a 75-basis-point reduction in interest rates for the year 2024.

CTA strategies, including LCM's, are crafted to systematically capture risk premia from markets, with many maintaining a significant focus on longer-term trends. Unfortunately, the majority of instruments in Q4 exhibited countertrend behavior compared to Q3, creating an environment challenging for the strategy to capture sustained trends.

"The year of the whipsaw"²

The year 2023 unfolded as a pivotal period for financial markets, marked by notable shifts. Rapidly

rising interest rates, inflationary pressures, and surging bond yields all signaled a departure from the prolonged era of historically low interest rates, subdued inflation, and unconventional monetary policy.

Over the past 12 months, interest rates soared to their highest levels in 22 years in both the United States and Europe. As extensively discussed in previous commentaries, LCM entered 2023 with a position largely resembling that of 2022. A distinctive feature was the maintenance of short positions across the US yield curve, along with shorts in European and Asian interest rate complexes. Many of these positions were established early in 2022, contributing significantly to the success of that year. This strategic stance faced challenges as the Bloomberg Aggregate Global Bond Index concluded the year with a six percent gain, rebounding from a mid-October dip when it had been down as much as 4%.

In summary, 2023 presented a challenging environment. The first quarter included, in March, the second-worst monthly return in the history of CTA indices—a month that also witnessed the biggest peak-to-trough move in two-year yields since the 1987 stock market crash. The second quarter contained massive gyrations in grain and oilseed markets. Finally, the third and fourth quarters saw significant risk-off followed by risk-on movements across the majority of instruments the strategy trades—a whipsaw environment, which can be challenging for longer-term trend-following strategies to capitalise on.

All in all, this combination of events posed challenges for CTAs in general and LCM in particular. Nonetheless, having lived to fight another day, it is with optimism that LCM looks forward to 2024, hoping for improved opportunities in the trading landscape.

¹ Marks, H., *'The most Important Thing Illuminated'*. Columbia Business School Press 2013.

² <https://www.toptradersunplugged.com/trend-following-performance-report-december-2023/>

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Lethame Capital Management

Lethame Capital Management (LCM) is a private company established to manage capital using proprietary software and algorithms developed by Principal, Piers D. Watson, CFA FRM CQF CFTe. LCM's investment program utilises over thirty years of experience as a portfolio and risk manager covering multiple asset classes and follows years of research, analysis and technology development. The program is designed to provide a comprehensive and systematic exposure to a diversified range of return streams.

Program design has been borne out by the performance of the system since inception and is backed by comprehensive back-testing over the past 40 years (see the performance table below).

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
1994									4.38%	-0.09%	5.94%	-6.26%	9.87%
1995	1.47%	0.18%	-4.46%	7.59%	8.84%	1.37%	0.26%	-2.99%	4.38%	5.77%	5.85%	3.01%	33.73%
1996	-2.38%	-3.02%	2.66%	4.69%	1.38%	7.76%	-10.11%	3.32%	5.09%	4.65%	19.51%	-4.81%	30.22%
1997	6.92%	-5.03%	-1.84%	-0.37%	4.25%	1.79%	11.07%	-6.62%	2.93%	2.25%	-1.56%	1.28%	32.68%
1998	0.48%	2.10%	3.31%	-4.54%	7.34%	-0.03%	10.28%	8.94%	-6.51%	-1.29%	6.98%	8.54%	35.68%
1999	1.04%	-5.52%	1.01%	1.67%	-0.68%	2.02%	-3.13%	1.09%	-0.16%	-4.88%	2.83%	13.81%	6.34%
2000	-2.70%	-2.35%	-2.78%	-0.51%	2.71%	-3.55%	0.41%	6.80%	-3.01%	-4.91%	15.12%	12.07%	49.69%
2001	-1.50%	13.16%	14.36%	-12.11%	3.77%	-1.29%	-0.05%	14.05%	17.24%	1.24%	-6.35%	-3.13%	38.00%
2002	-1.13%	2.05%	-7.02%	5.24%	2.98%	10.14%	10.84%	2.09%	10.78%	-5.74%	-3.67%	13.08%	39.79%
2003	7.62%	11.88%	-8.22%	0.38%	9.08%	-2.19%	-4.35%	1.10%	6.28%	-0.20%	3.61%	8.13%	23.45%
2004	4.99%	16.29%	4.23%	-13.36%	0.65%	-2.01%	-5.83%	4.21%	0.61%	6.61%	5.48%	4.99%	29.49%
2005	-4.69%	-6.47%	-3.42%	2.42%	4.79%	-1.13%	-2.72%	1.86%	-0.90%	-4.27%	5.10%	-4.50%	4.83%
2006	-1.16%	-2.69%	6.65%	3.45%	-3.20%	-2.59%	-7.07%	1.09%	5.59%	3.55%	2.13%	4.36%	6.22%
2007	-0.95%	-4.37%	-4.50%	5.95%	5.96%	-3.66%	-2.00%	-3.45%	1.43%	3.46%	4.14%	-0.37%	20.84%
2008	12.77%	8.20%	4.03%	-7.42%	0.50%	14.44%	-7.40%	-2.01%	9.80%	17.15%	12.62%	4.98%	63.44%
2009	3.66%	5.34%	-4.96%	-3.68%	-5.86%	-1.91%	1.73%	6.58%	5.56%	-1.04%	17.19%	-9.87%	-15.30%
2010	3.62%	3.93%	11.47%	4.77%	-3.30%	3.53%	-6.20%	4.78%	-1.66%	6.58%	-5.25%	7.34%	15.37%
2011	3.42%	4.16%	-5.87%	9.11%	-2.78%	-8.20%	6.82%	11.66%	-3.50%	-6.10%	1.26%	3.96%	-10.67%
2012	5.62%	2.15%	1.57%	2.69%	5.85%	-10.97%	11.00%	-1.44%	-2.13%	-4.41%	-0.99%	-2.87%	-6.17%
2013	-2.67%	-0.37%	1.86%	8.49%	-10.51%	-9.74%	4.74%	-4.81%	3.41%	5.83%	2.26%	-9.51%	1.08%
2014	-1.00%	2.54%	-7.23%	2.90%	15.93%	10.88%	-5.72%	4.19%	6.29%	6.10%	10.18%	-1.57%	31.39%
2015	10.50%	4.36%	6.69%	-3.54%	3.94%	-11.17%	4.21%	-8.74%	10.62%	0.20%	10.02%	-8.31%	19.47%
2016	8.73%	8.12%	-5.94%	-2.86%	-3.21%	-0.37%	2.84%	-3.73%	-4.89%	-5.98%	2.31%	9.53%	-11.08%
2017	-2.67%	16.23%	0.44%	5.46%	3.30%	-11.18%	2.94%	2.17%	0.86%	15.73%	-0.72%	-0.79%	3.36%
2018	17.86%	-11.64%	-3.92%	-0.29%	-0.91%	1.58%	2.96%	2.65%	-2.57%	-2.47%	-2.83%	4.08%	12.21%
2019	-4.38%	9.14%	1.48%	5.40%	-2.16%	0.74%	1.88%	6.59%	-3.77%	-2.55%	1.36%	-1.20%	12.17%
2020	2.67%	7.11%	8.20%	-1.26%	-2.22%	-1.18%	-0.70%	0.47%	-3.00%	-0.86%	2.85%	6.20%	18.97%
2021	-1.83%	6.22%	0.80%	5.01%	1.97%	-2.00%	-0.29%	-0.98%	-2.84%	4.18%	-7.50%	-0.62%	1.31%
2022	-0.08%	-0.52%	5.17%	10.07%	-1.40%	7.90%	-6.02%	2.94%	5.62%	-3.90%	-2.48%	0.33%	17.61%
2023	-0.68%	1.30%	-3.60%	0.57%	0.32%	-1.24%	-0.02%	-0.60%	1.31%	-1.73%	-1.53%	0.39%	-5.48%
Simulated													
Real Time													

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