Technology of the Future Fund

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MONTHLY REPORT
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Executive Summary

Reflation-based trade remains dominant as fiscal policy support persists, central banks stay dovish, and vaccination campaigns support a rebound in pent-up demand and investment activity. The greatest potential risks in today's market remain a sharp rise in interest rates and a bursting of the US tech bubble. That said, the two main triggers — earnings collapse and monetary tightening — that could lead to a serious bear market in equities remain missing. Overall, we see higher levels of uncertainty now than back in 4Q 2020, as well as tighter credit spreads/stretched valuations. We view the current situation as a more asymmetric risk set up. The Technology of the Future Fund had a +2.05% return in January, outperforming the benchmark MSCI World Index (USD), which had a return of -1.05%.

Economy and Markets

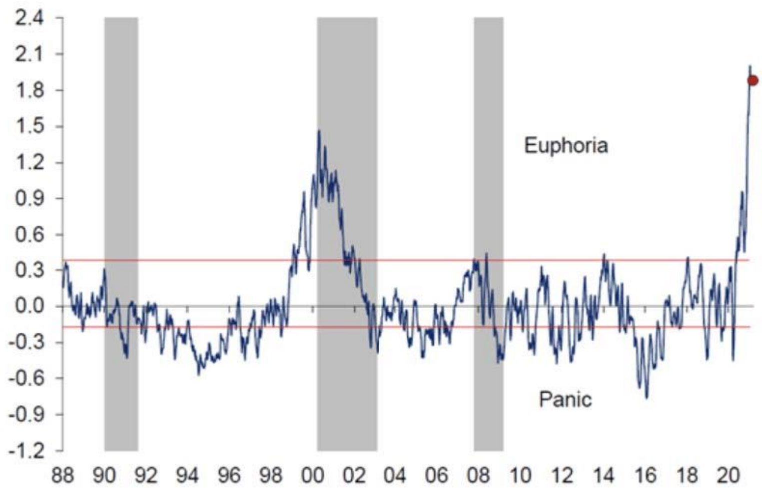
One of the most noteworthy events in January 2021 was the yield on US 10-year treasuries, which broke the important 1.0% level and reached 1.187% on January 12th. Credit Suisse's technical analysis team points to 1.35-1.36% as being the next level, which can be reached at the end of 1Q 2021.

Another worrying signal is that the US 5-year forward inflation expectation rate and 10-year breakeven inflation rate have risen by 12 basis points and 14 basis points respectively since late January, hitting recent highs of 2.13% and 2.22% on February 7th. Indeed, the 10-year breakeven inflation rate is now at its highest level since August 2014 and sending a signal that long-term bond yields are heading higher.

This is definitely something to keep a close eye on, as the rise in interest rates will be among the most crucial factors influencing market performance going forward in 2021-2023.

The cosmetic pullback at the end of January did little to dampen the earlier strong climb, leaving markets again in overbought territory. There are clear signs of euphoria and reasons to be cautious.

Figure 8. The Panic/Euphoria



Source: Citi Research, Haver

Most contrarian indicators confirm excessive investor optimism. A rare (short-term) signal from Morgan Stanley research shows that 92% of stocks in the S&P 500 (extremely strong breadth) are currently sitting above their 200-day moving averages. Morgan Stanley's back test of forward returns from such levels suggest with high statistical significance that forward returns on a one- and three-month basis will be lower.

At the same time, according to Deutsche Bank research, one of the key risk indicators - the credit spreads risk indicator have already reached bullish 1H 2021 targets (in other words, spreads have bottomed) while the yield on 10-year Treasuries has broken the key resistance level of 1.0%.

But the chart below points to a potential volatility spike ahead. There are two graphs on the chart: The top graph is the daily range of the S&P 500.The bottom graph is the VVIX/VIX ratio. The CBOE Volatility Index (VIX) measures the market's estimation of expected S&P volatility over the following 30 days. The CBOE VVIX index measures the market's belief of expected VIX volatility over the following 30 days. The VVIX measures how rapidly S&P 500 volatility changes. Observe the trendlines attending the movements in the VVIX/VIX ratio. When the ratio broke below the rising trendline in February 2020, it signaled an impending jump in market volatility. That February 2020 stock market high led to the fastest decline from an all-time high in history. The VVIX/VIX ratio bottomed at 2.05 on March 12, 2020 and has been advancing ever since. On January 27, 2021 the ratio broke below the ten-month trendline, suggesting **that the volatility is ready to spike higher**. No indicator has an ideal record, but with sentiment and various valuation measures more extreme by a degree than at the top day in 1929, short-term bearish signals such as the VVIX/VIX ratio are important.

Stretched bullish sentiment and over-optimistic investor positioning has encouraged our move towards a defensive and extremely conservative portfolio structure for the time being.

Investment Strategy and Portfolio Changes

Overall, we took advantage of market strength to be net sellers in January 2021. Highly speculative investor behavior in the US market resulted in crazy moves and stretched valuations in most of our core holdings. We were compelled to sell our largest core position and top performer in the portfolio — Renewable Energy — as the market has already priced in the best possible outcome in company's near-term business. We were also forced to reduce the weight in some of our core biotech holdings due to our risk management procedures that do not allow the maximum weight of a company with negative free cash flow to exceed 5%. Based primarily on COVID-19 vaccination progress, the Biotech sector proved to be one of our winners in January 2021 and our top Biotech holdings delivered impressive returns (see top contributors below).

In principle we expect 2021 to be a challenging year, so we began adding to our portfolio's insurance by starting to accumulate a basket of deep-value goldmining stocks. Naturally this led to some questions from investors about why a technology fund would invest in goldmining. **Our response:** "We are here to make money and protect the capital of the investors in our fund, and **not** to have a smart academic portfolio. We will do **whatever it takes** to protect the capital and deliver an absolute return by investing in quality companies."

Monthly performance %

As of 31.01.2021

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-0.11%	+0.79%	-7.86%	+6.45%	+8.51%	+6.03%	-0.17%	+1.51%	-0.22%	-1.39%	+18.08%	+3.22%	+38.07%
2021	+2.05%	-	-	-	-	-	-	-	-	-	-	-	+2.05%

Technology of the Future Fund performance vs. major equity indexes

	January 2021	YTD 2021
Technology of the Future Fund (USD)	+2.05%	+2.05%
S&P 500 (USD)	-1.11%	-1.11%
NASDAQ 100 (USD)	+0.29%	+0.29%
NASDAQ Biotech (USD)	+6.25%	+6.25%
DJ Stoxx 600 (USD)	-1.42%	-1.42%
MSCI EM (USD)	+2.97%	+2.97%
Micex, Russia (USD)	-2.48%	-2.48%
Shanghai Composite (USD)	+1.85%	+1.85%
MSCI World (USD) (Fund's benchmark)	-1.05%	-1.05%

Performance contributors

January 2021

Top contributors	Return %	Contribution
Axon	+33.98%	+0.84
Translate Bio	+29.57%	+1.86
Renewable Energy	+26.52%	+1.80

Bottom contributors	Return %	Contribution
Artificial Solutions	-10.32%	-0.43
Invisio	-22.26%	-0.79
E-Health	-32.23%	-0.73

Performance Contributors, January 2021

Shares of the US company **Axon Enterprise** (+33.98%), which specializes in law enforcement technology solutions (police body cameras etc.), continued to climb as more investors recognized the large Total Addressable Market for the company's unique products, while the company itself continued to add new clients and penetrate new markets. Shares of US Biotech company **Translate Bio** (+29.57%) — our core holding in the sector — went up based on positive COVID-19 vaccination news. The company's COVID-19 therapeutic candidate uses a messenger RNA (mRNA) technology that instructs cells in the body to make specific coronavirus proteins that then produce an immune response. The key differentiator of mRNA technology is to "turn on" an otherwise sleeping gene. Leaders in the race for successful COVID-19 vaccines, Moderna and Pfizer, whose vaccine candidates are in late-stage trials, are also using this approach. As previously noted, we cut our exposure to 5 % weight in the portfolio based on our risk management policy regarding negative cash flow, but also because the company's key drugs are still in 2nd stage clinical trials. Shares of the US alternative energy producer **Renewable Energy** (+26.52%) shot up purely on speculative demand, after they came up on the radar of many investment banks and institutional investors. We have sold our position, as the valuation became stretched and the risk/reward no longer looks appealing to us. We believe market volatility is the primary reason behind the underperformance of Swedish IT company **Artificial Solutions** (-10.32%). The company specializes in global enterprise-oriented conversational Artificial Intelligence (AI), a form of AI that allows people to communicate with applications, websites and devices in everyday natural language via voice, text, touch or gesture input. High volatility in shares of such new technology companies is typically part of the game and we have increased our position based on the company's promise. Shares of Swedish military communication equipment producer **Invisio** (-22.26%) declined upon news that the company did not receive an expected order from the US Marine Corps. We consider the news a one-off minor event, as the company has a large military communication worldwide Total Addressable Market, and have used the decline to add to our position. US provider of online health insurance **E-Health** (-32.23%) reported weak preliminary results for Q4 that missed its own guidance and consensus estimates. Revenue is now expected to be ~ $292mm to $293mm, indicating a 3% decline year-over-year at the midpoint compared to 19% growth provided by company guidance. While the company is experiencing some disruption in capturing the Medicare market growth trend, we continue to believe it offers a good online solution to help beneficiaries navigate open enrollment. Because valuations had been getting stretched, we cut our exposure by selling 50 % of our position with a good profit prior to the release of this news. At the moment we maintain our position without changes and will continue to watch developments.

Portfolio Structure

After great 2020 performance, in late December 2020 into January 2021 we started to position the portfolio for a market consolidation and return of volatility. We maintain our portfolio protection bias, as we expect 1H 2021 volatility based on excessive optimism and current investor positioning. We received some criticism from investors concerned about the high level of cash in the portfolio through the course of 2020. But overall performance in 2020, with limited drawdown in March, proved that being conservative and cautious was the right strategy for the year. Normal rules of behavior do not apply during abnormal times.

Portfolio structure