Technology of the Future Fund

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MONTHLY REPORT
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Executive Summary

The discrepancy between the straggling COVID-19 economy and equity markets widened further during the last month of the year. Equity markets ended 2020 with valuations among the top percentages of their historical ranges while the global economy struggled with one of its worst contractions since the end of World War II. Government unleashing of unprecedented fiscal and monetary stimulus combined with expectations for additional stimulus in the US helped support the continued strong recovery in equity prices, with positive COVID-19 vaccine news serving as booster fuel for the rally. Meanwhile, many regions continue to struggle with virus spread, leading to the re-imposition of strict lockdowns across much of Europe, parts of the US, and elsewhere. This will likely have a negative impact on 4Q 2020 and 1Q 2021 economic growth and corporate earnings. Thus, we have turned cautious on equity markets and are responding with an application of defensive tactics and an increased focus on capital protection. The Technology of the Future Fund had a +3.22% return in December, slightly underperforming the benchmark MSCI World Index (USD), which had a return of +4.14%. The fund delivered a +38.07% return in 2020, significantly outperforming the benchmark MSCI World Index (USD), which had a return of +14.06%.

Economy and Markets

"It doesn't do any good to think about what's going to happen to the economy, or for how long the stock market is going to decline or to how low. These things are unknowable. What really matters is whether price is proportional to fundamentals. It's all about value."

—Howard Marks, Co-Founder and Co-Chairman, Oaktree Capital Management

The recent market rally is based largely on blind faith in the success of vaccines. Investors have entered 2021 with a positive view on equities, which is pricing in a best possible scenario that "back to normal" life is just around the corner and that accommodative monetary conditions and zero real rates will remain in place indefinitely. This is causing the markets to enter extreme overvaluation territory, with explosive price increases and hysterically speculative investor behaviour. This is a classic example of the "Triumph of hope over experience", confirmed by the single most dependable feature of every great market bubble that has ever emerged: really crazy investor behaviour, especially on the part of amateur individual investors. This is exactly what occurred November-December 2020, even in the face of a high probability that double-dip recession will hit the developed world in early 2021.

We maintain our core assumption that mass vaccinations are likely to facilitate successful herd immunity in 2021, but any vaccine-related news will undoubtedly result in increased volatility. This highlights the importance of adding further sources of diversification in the portfolio with stocks uncorrelated with major equity indexes and of keeping some hedges in place. The outlook is optimistic, but the road to economic recovery will likely be very bumpy. Today, many companies in our portfolio continue to experience negative pandemic-related impacts on sales as a result of the cancellation or postponement of business meetings, sales trips, trade shows, and other important business functions, but this is not yet being reflected in share prices. At the same time, most of the contrarian indicators for US equities are firmly in the "overbought zone". For example, the percentage of current upward target price revisions by US equity analysts is 75% (smoothed) of total target price revisions. Historically, upward price revisions at this level led the S&P 500 to deliver a negative or, at-best, flat performance and resulted in a consolidation period in the subsequent weeks/months (see chart below).

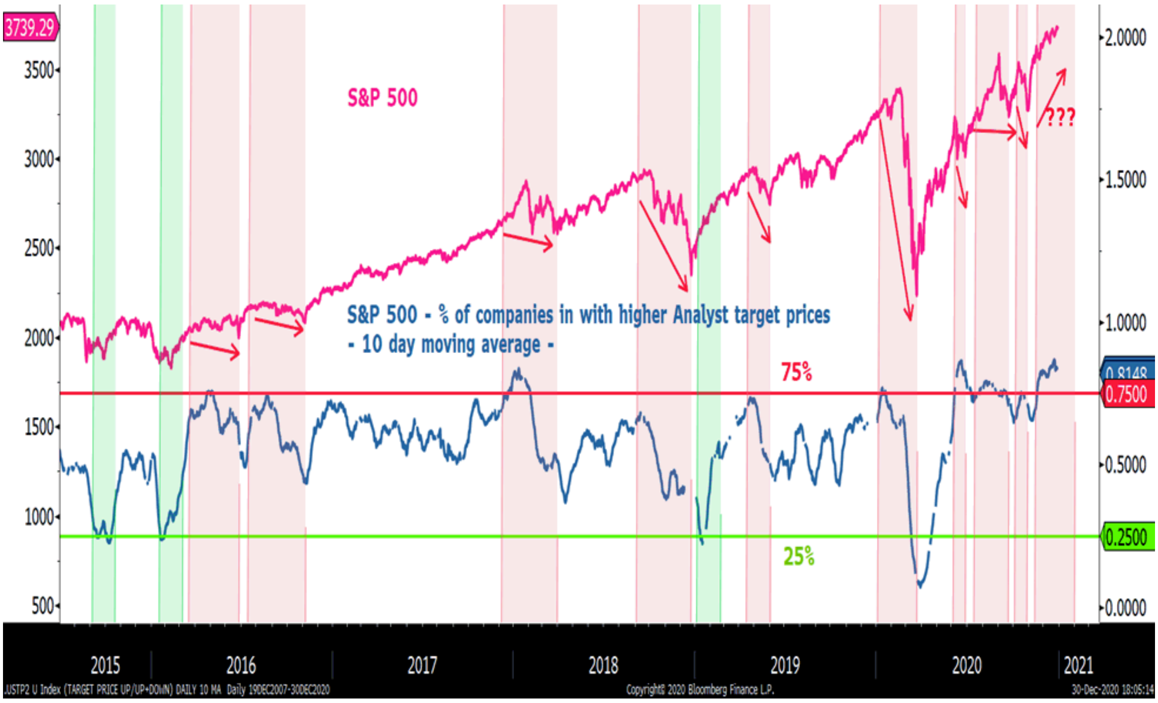

Chart courtesy of Maurizio Sanci.

Investment Strategy and Portfolio Changes

After realizing decent returns in November and December 2020 we continue to move forward with caution. As was the case in January 2020, the majority of companies on our radar are seriously overvalued based on 2021-2022 multiples. The euphoria in the markets may very well continue longer than we expect, but eventually something will trigger a collapse. We do not plan to sell/decrease exposure to our core strategic positions, but after selling all super-growth overpriced stock positions in the Fall of 2020, we used the market strength to sell some non-core positions in December, a strategy discussed in our December newsletter.

Non-core positions sold included Lenta (retail), LSR (real estate), Kazatomprom (energy), Gazprom (energy) and Bank of Georgia. These were deep value names in which we had placed some of our portfolio's cash in 1H 2020. Along with the December sales of those positions, we opened new positions in precious metals, gold, and silver ETFs. While precious metals are not part of our usual investment strategy, our primary goal is to deliver an absolute return to investors with controlled risks—and not just present a smart-looking academic portfolio. We are fully aware that the bubble in the US technology sector is in danger of bursting. But rather than decreasing exposure to some of our core holdings, we try to diversify the risks by investing in low beta names uncorrelated with major equity indexes.

The Technology of the Future Fund had an +3.22% return in December, slightly underperforming major indexes and the benchmark MSCI World Index (USD), which had a return of +4.14%. In 2020 the fund delivered a +38.07% return, significantly outperforming all major indexes and the benchmark MSCI World Index (USD), which had a return of +14.06%. Most of our actions have been concentrated on selling using the market strength, as the risk/reward relationship in the markets has been deteriorating.

Monthly performance %

As of 31.12.2020

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%

Technology of the Future Fund performance vs. major equity indexes

	December 2020	2020
Technology of the Future Fund (USD)	+3.22%	+38.07%
S&P 500 (USD)	+3.71%	+16.26%
NASDAQ 100 (USD)	+5.05%	+47.58%
NASDAQ Biotech (USD)	+4.49%	+25.69%
DJ Stoxx 600 (USD)	+4.93%	+4.54%
MSCI EM (USD)	+7.15%	+15.84%
Micex, Russia (USD)	+8.97%	-9.71%
Shanghai Composite (USD)	+3.20%	+21.49%
MSCI World (USD) (Fund's benchmark)	+4.14%	+14.06%

Performance contributors

December 2020

Top contributors	Return %	Contribution
ASM International	+24.37%	+1.16
Invisio	+36.75%	+1.24
Petrobras	+16.85%	+0.99

Bottom contributors	Return %	Contribution
Translate Bio	-17.06%	-1.13
Dicerna Pharmaceuticals	-12.82%	-0.58
Artificial Solutions	-17.21%	-0.71

Performance Contributors, December 2020

Shares in ASM International (+24.4%) continued to climb as investors appreciate the unique position the company has in the industry with a massive potential Total Accessible Market—this based on it effectively serving as a producer of the equipment needed by computer chip manufacturers. The company also continued to buy back its shares, which further supported the rally. A Swedish producer of military/defence communication systems, Invisio (+36.8%) made an interesting acquisition of Racal Acoustics, which is a perfect strategic fit with its active noise reduction solutions for military vehicles, a technology that Invisio did not previously have. Perhaps needless to say, but investors reacted positively to the acquisition news. Based on oil strength and investor rotation towards emerging market value names, shares of Brazilian Oil Giant Petrobras (+16.9%) earned a second consecutive month among the top winners in our portfolio. Shares of biotech company Translate Bio (-17.0%) retracted after their spectacular performance in November 2020 (+70%). The recent negative share-price performance of both biotech company Dicerna (-12.82%) and IT company Artificial Solutions (-17.21%) seems to be based purely on year-end market volatility and investor repositioning of portfolios.

Portfolio Structure

After a fantastic performance in November and December we started to position the portfolio for the markets' expected consolidation and return of volatility. We maintain our portfolio-protection bias and maintain high levels of cash as we expect that 1H 2021 volatility based on negative surprises in economic growth and corporate earnings will provide us with opportunities to add to our core positions at attractive levels, as well as open new positions. We received some criticism from investors for having high levels of cash in the portfolio during the course of 2020. But overall performance with limited drawdown in March 2020 proved that being conservative and cautious was the correct strategy for 2020.

Portfolio structure