Finbou Investment Advisory

Finbou Thales - Investor Letter H2 2021

Dear investors,

Despite a very difficult start to the year, we managed to make a solid comeback to return 8.8% net of fees for the year. In this letter, we will go through the performance, changes in our counterparties and discuss the outlook for 2022.

2021 Performance

During the second half, we decided to consolidate our trading and assets at Capriva to ensure the best trading environment for the strategy. In the past, we have struggled to provide consistent trading performance across various brokers as to us; it has seemed quite random which broker performed best at times.

We are very excited to work with Capriva and believe we can put the past issues related to trade execution behind us. Most assets from our managed accounts have been transferred, and performance has become finally homogenous in H2 2022.

We now offer the strategy in different risk variants based on the value at risk (VaR) metric derived from Capriva's risk engine. Clients can choose different risk setups that vary from 6.5% to 9% VaR. Below you can see the performance after fees applying a fee structure of 20%/1.2% and 9% VaR. [1]

Monthly Returns %

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2015	12.02	0.54	4.12	3.93	-0.33	-0.22	0.55	6.79	7.85	13.05	13.92	1.39	83.29
2016	-1.78	0.81	6.92	1.09	-0.42	3.72	-8.87	2.84	6.52	1.97	2.28	8.29	27.07
2017	7.62	-0.70	4.12	3.56	2.82	0.16	5.22	0.11	5.13	6.73	4.44	4.40	53.04
2018	-4.14	-1.61	-4.14	-3.66	0.38	9.50	-0.47	-0.90	2.27	2.22	-4.80	1.71	-4.42
2019	3.49	3.06	3.52	1.93	-2.73	-5.40	0.07	-2.80	3.72	13.46	-1.01	2.51	20.29
2020	1.33	0.34	-4.03	3.51	3.40	7.70	-0.56	-0.95	-0.40	-1.62	-6.32	3.09	4.84
2021	0.39	-7.37	-9.33	10.08	5.92	-0.57	6.60	2.72	0.34	1.20	1.66	-1.45	8.88

[1] For further explanation on the VaR metric, *see* https://help.darwinex.com/var

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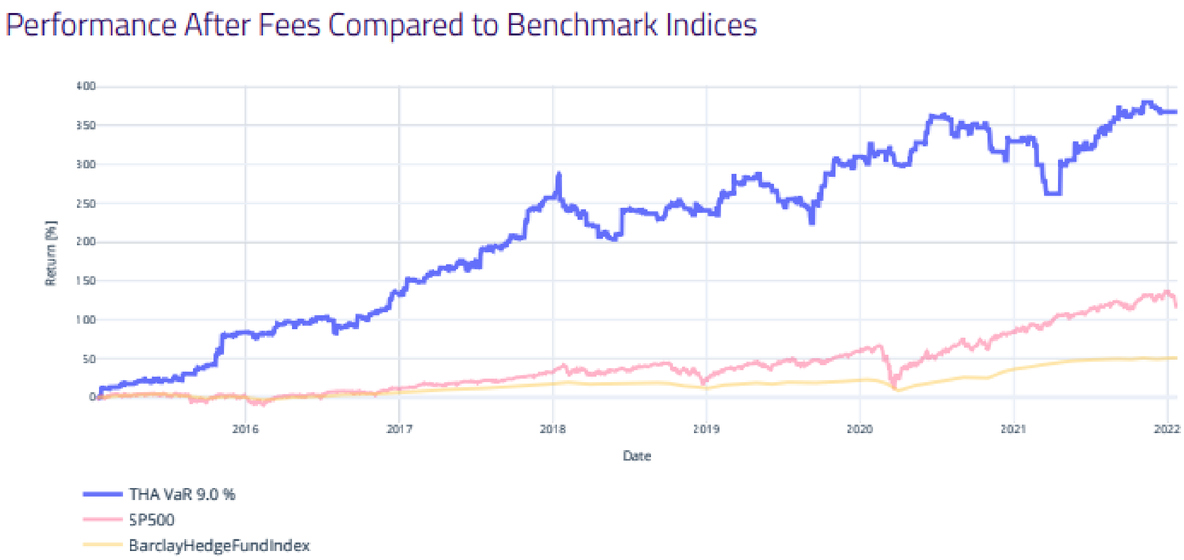

Outlook

The story for the second half was the persistence of inflation, which caused central banks to signal more aggressive policy tightening. We highlighted this as a major possibility in the previous letter, even though most central banks continued to argue that inflation was transitory during the first half.

The market is pricing in quite a few rate hikes already for most G10 central banks, but there could be considerably more to come. The Fed's Chair Powell highlighted in the last meeting that this is a different economy than in the past, where rates may need to rise considerably faster. Against this backdrop, the stock markets look quite elevated in terms of valuation, especially if supply bottlenecks prove more durable and therefore central banks hike rates faster than anticipated.

For us, the outlook looks brighter. The market is pricing considerably more volatility than in the past, and central banks are in focus again. Also, the inflation outlook is quite different across economies. While it's clear most advanced economies will need to raise rates, the pace between jurisdictions will be quite different. For example, for the ECB, the market is pricing in just a few rate hikes, while for the Fed rates are expected to rise several times during 2022. Policy divergence has been historically one of the biggest drivers for performance, and now we have a quite clear divergence.

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Conclusion

Despite the rollercoaster performance at the beginning of the year, we managed to finish the year on a strong note. We incurred no serious drawdowns in the second half and firmly believe in this new market dynamic where monetary policy divergence is a driver again, and we will be capable of providing very compelling risk-adjusted returns to investors. The Corona impact on markets seems to be subsiding finally, and with the return of inflation, we should see significantly higher FX volatility. We are optimistic that this year will be considerably stronger than the past two years.

Looking back, the past four years have been challenging given the Corona backdrop, and the fact FX volatility dropped to historical lows during 2018 and 2019. Moreover, as newcomers in the hedge fund industry, we underwent significant growing pains with different brokerages providing poor trading conditions (execution, spreads, swaps, and commissions). We have put those problems behind us and can finally focus on growth again.

While we have underperformed equity markets in the past years, we believe they are also due for a considerable correction as interest rates rise. We remain adamant that we can outperform the equity markets risk-wise in the long term. The seven-year return of SP500 is 120%, whilst ours stands at 340% net of fees.

Sincerely,

Aatu Kokkila
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Performance data represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance data presented.

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