

London, 21 February 2021

Simplicity is key

“Simplicity is not a simple undertaking!” commented one of our investors, highlighting that our J8 Global Absolute Return Strategy (J8 GARS) is really a simple program, but underlying this simplicity are many complex constructs that result in a tightly risk managed solution, focused on persistent returns.

While equities enjoyed an unprecedented run since the last financial crisis, seemingly endless quantitative easing and stimulus programs turned bond yields into unattractive, and as some perceive, potentially “risky” investment propositions. Investors increasingly trade liquidity for the hope of higher returns in less liquid investment opportunities such as real estate, private equity, crypto currencies, or other exotic investments. They do so knowingly, fearing they may pay a high price during the next credit crisis, and respecting that liquidity will once again become the highest valued currency of them all. Leading investments through fear is not usually a prudent portfolio management decision.

With ever increasing commodity prices, inflation gradually starts to creep up, too. The Federal Reserve Bank of New York reported a total private *Household Debt and Credit* of USD 14.56 trillion in Q4 of 2020 (approximately 65% of the US 2019 GDP). CNBC reported a global debt to GDP ratio of 365%. Furthermore, during recent market corrections, the classical “flight to safety” trades of government bonds, US dollar, and gold seem to have become less relevant. Investors “ride it out” with confidence encouraged by the expectation that more backstop facilities and stimulus packages will take prices back up again. This simple “ride it out” stance is marred by market complexities!

Strategy Objective

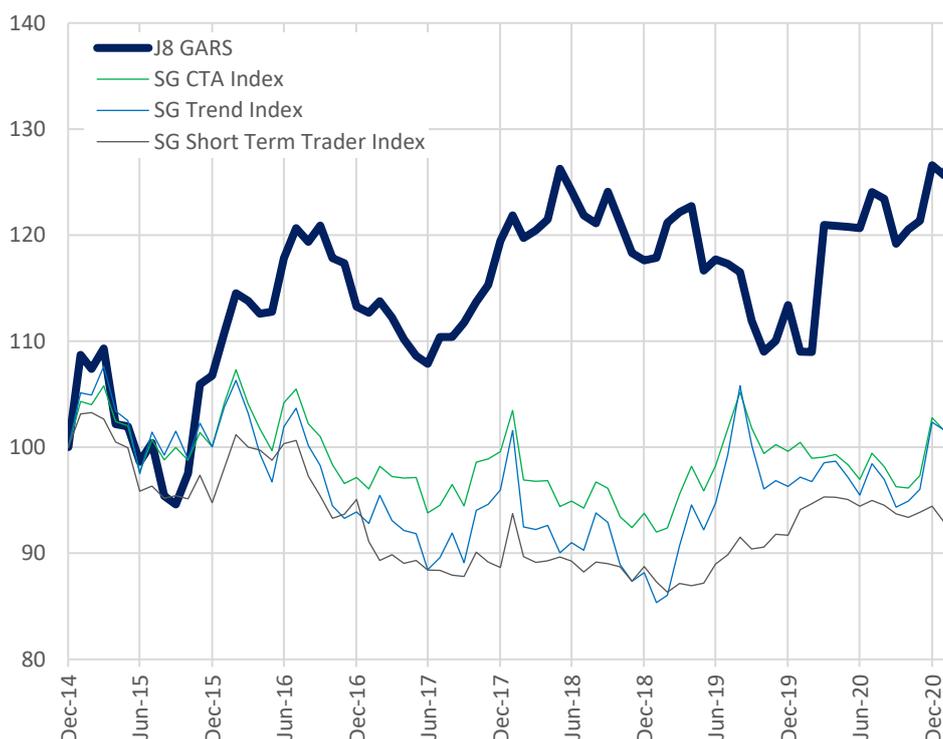
Against the above stated backdrop, astute investors focus on investment opportunities that may serve as insurance policies, thus allowing them to prudently harvest returns. Such investors, at the core, look towards protection against severe and prolonged market corrections, ease of liquidity, and most importantly want to earn a premium during normal market conditions.

In J8, we embrace a quotation attributed to Albert Einstein “Everything should be made as simple as possible, but no simpler.”¹

¹ <https://www.championingscience.com/2019/03/15/everything-should-be-made-as-simple-as-possible-but-no-simpler/#:~:text=In%20honor%20of%20Albert%20Einstein's%20birthday%20%E2%80%93%20Everything%20should%20be%20made,as%20possible%2C%20but%20no%20simpler&text=%E2%80%93Everything%20should%2>

Performance

The J8 GARS strategy returned +11.64% in 2020. More importantly, the J8 GARS program had a volatility over drawdown ratio that ranks “best in class” as compared to the 10 largest CTA trend following programs.



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Cm Rtn
2015	8.70%	-1.20%	1.77%	-6.51%	-0.22%	-3.28%	1.81%	-4.98%	-0.84%	3.09%	8.63%	0.78%	6.76%
2016	3.81%	3.34%	-0.65%	-1.05%	0.16%	4.48%	2.42%	-1.07%	1.29%	-2.56%	-0.39%	-3.50%	6.08%
2017	-0.52%	0.98%	-1.36%	-1.83%	-1.40%	-0.71%	2.35%	0.00%	1.22%	1.75%	1.38%	3.62%	5.48%
2018	2.00%	-1.76%	0.61%	0.85%	3.95%	-1.67%	-1.85%	-0.62%	2.46%	-2.35%	-2.36%	-0.60%	-1.56%
2019	0.22%	2.81%	0.81%	0.45%	-4.94%	0.90%	-0.38%	-0.66%	-3.92%	-2.60%	0.93%	3.06%	-3.58%
2020	-3.87%	-0.02%	10.99%	-0.08%*	-0.08%*	-0.08%*	2.89%	-0.58%	-3.44%	1.14%	0.65%	4.32%	11.63%
2021	-0.75%	2.46%											1.69%

Table 1 and Figure 1: Live performance of the J8 Global Absolute Return Strategy (J8 GARS), calculated as futures performance less realized trading costs and slippage and less indicative management fee of 1% p.a. and performance fee of 15%. J8 GARS and SG Indices are calculated using USD 100 as starting value on 1st January 2015. *The strategy was not trading in these months, hypothetical returns: Apr20 -0.86%, May20 -2.36%, Jun20 -1.54%. Note: Past performance is not necessarily indicative of future results. THE RISK OF LOSS IN COMMODITY INTEREST TRADING CAN BE SUBSTANTIAL. Source: J8 Capital Management LLP, Bloomberg Financial LP.

[Obe%20made%20as,the%20great%20quotes%20in%20science.&text=It%20was%20attributed%20to%20Albert%20times%5B1%5D%20in%201950.](https://www.bloomberg.com/news/articles/2019-05-15/j8-capital-management-llp-made-as-the-great-quotes-in-science-it-was-attributed-to-albert-times-5b1-5d-in-201950)

2020 risk management in action

2020 was an extraordinary year and J8 GARS demonstrated its strong core risk management capabilities:

1. The system leverage reduced sharply during the market distress in March and April 2020 by about 75%, processing a systematic methodical risk management procedure
2. The currency component took advantage of market dislocations. Both, the trend following and carry trade benefitted significantly from the weaker US Dollar, particularly from the appreciation of EM currencies vs the US Dollar.
3. The trend following strategy focusing on government bonds contributed further to enhance the portfolio's positive returns during 2020, mainly with long positions to benefit from flight to safety market allocation.
4. The commodity component garnered returns from i) directional trending commodities, both in rising and falling markets, ii) the term structure arbitrage strategy as roll yield differentials between deferred and near-by expiring futures created opportunities, and iii) inventory basis strategies facilitated opportunities through directional positions in over or under supplied commodities.

Benefits of J8 GARS addition

While J8 GARS merits stand-alone investment, an allocation to J8 GARS in a traditional investment portfolio can potentially increase the overall risk-adjusted performance, reduce drawdowns, and shorten recovery periods, thus creating a positive effect on portfolio diversification.

Adding J8 GARS to a traditional bond/equity portfolio provides robustness and creates a more efficient asset allocation. We definitely saw the power of such diversification in 2020. In analyzing the change in the Efficiency Frontier as we increase the allocation to J8 GARS while decreasing the allocation to a traditional bond/equity portfolio, an enhancement of return coupled with a reduction of risk is evident. The traditional portfolio trades 40% bonds and 60% equities. Due to the low interest rate environment, many traditional portfolios have shifted to a 20/80 bond/equity allocation. We analyse both below.

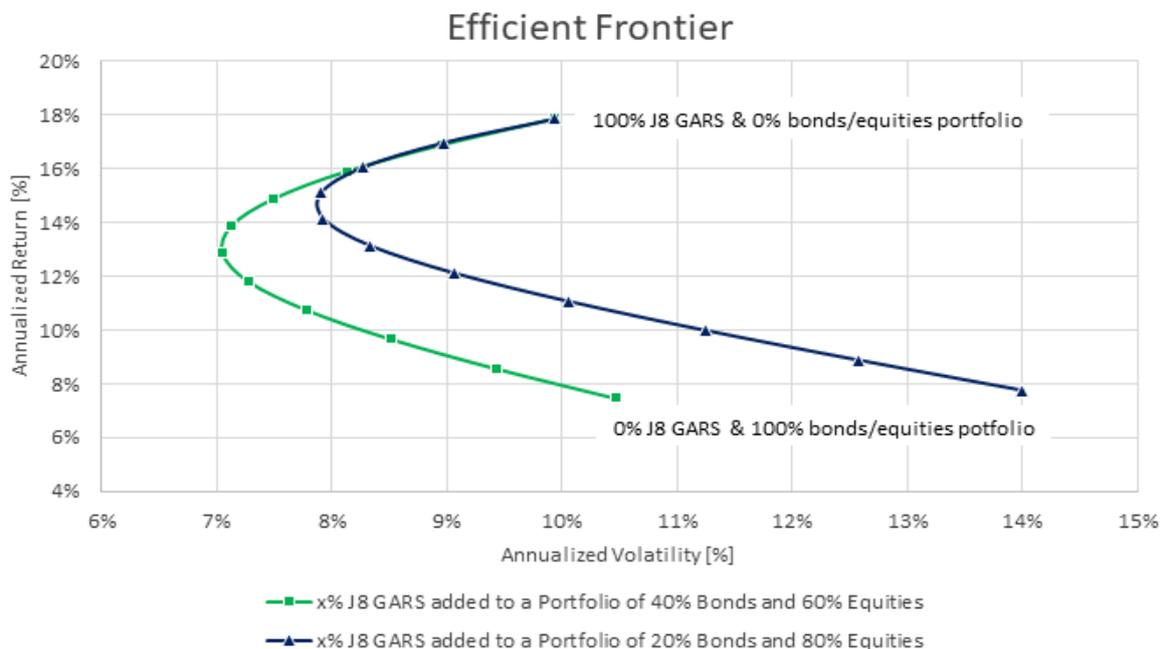


Figure 2: Change in the efficient frontier when J8 GARS is added to a traditional equity/bond portfolio. The analysis uses the Bloomberg Barclays Aggregate Bond Index (formerly the Lehman Aggregate), the S&P 500 Index and the J8 GARS extrapolation of hypothetical returns of actual data utilizing the current model from January 1991. Note: Past performance is not necessarily indicative of future performance. Source: Data from NilssonHedge, performance calculation by J8 Capital Management LLP.

Prudent and astute portfolio managers appreciate simplicity and “less sleepless nights”. Such managers seek intuitive and understandable returns, long-term capital appreciation and a diversifier to protect portfolio returns, all attributes established in the portfolio construction of the J8 GARS program. Simplicity is really the key!

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