PERFORMANCE REVIEW

In the opening quarter of the new year, the Osprey Fund sustained a -5.9 percent loss, driven by a shock to the US banking sector in the second week of March that reverberated throughout global markets and were exacerbated by the unraveling of concentrated positions across a wide range of CTA and global macro strategies.

While the strategy has benefitted from several outsized positive months of similar magnitude in the past, we recognize that the discomfort from a loss is about twice as meaningful as the joy from a similar-sized gain[1]. And though the speed of the daily moves was exceptional, the size of the monthly drawdown is proportional to Osprey's annualized volatility, which ranges between 10 and 15 percent.

Table 1. Q1 Return Attribution

Sector	Q1
Bonds	-4.0%
Currencies	1.2%
Energies	-2.2%
Grains	0.4%
Indices	1.8%
Volatility	0.0%
Meats	0.0%
Metals	-1.8%
Rates	-0.8%
Softs	-0.6%
Total	**-5.9%**

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.

Source: ReSolve Asset Management Inc. Results may differ due to rounding. Performance is expressed in CAD. Strategy attribution is a best-efforts approximation, net of all applicable borrowing costs, fees and fund accruals for the period. Indicated returns of one year or more are annualized.

Bonds were the worst performing sector as short exposures to Canadian, US and especially German sovereign debt – which had been a critical source of positive returns for the prior 18 months – motivated by a combination of all feature families, led to losses. Long Aussie 3-year (Relative Value and Seasonality) produced important offsetting gains.

Energies also detracted, primarily driven by active trading in Brent and WTI crude oil markets and short diesel (Relative Value and Trend). Short exposure to natural gas and long gasoline (all features) led to meaningful profits.

Metals negatively impacted the portfolio, with most losses stemming from a short position in gold (Carry and Relative Value) that was affected by the 'flight to quality' move in the wake of the US banking crisis, along with active trading in platinum (Carry and Seasonality). Short palladium (Carry, Relative Value and Trend) generated some gains.

Rates were also partly responsible for losses, stemming from shorts in the Canadian BAX and Euribor (all features), though important profits were generated from long Aussie Bills (Carry, Seasonality and Trend) and active exposures to Eurodollar (all features).

Softs' negative contributions resulted from short sugar (Relative Value) and Arabica coffee (Relative Value and Seasonality), partially offset by long Robusta coffee (Carry, Relative Value and Trend).

Equities were the primary source of profits, led by shorts in the UK FTSE (all features), S&P500 (Relative Value) and Hang Seng (all features), and longs in the Aussie 200 (Carry), French CAC40 (Carry and Seasonality), Italian MIB (Carry and Trend) and Spanish IBEX (Carry and Trend).

[1] https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/prospect-theory/ and https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/myopic-loss-aversion/

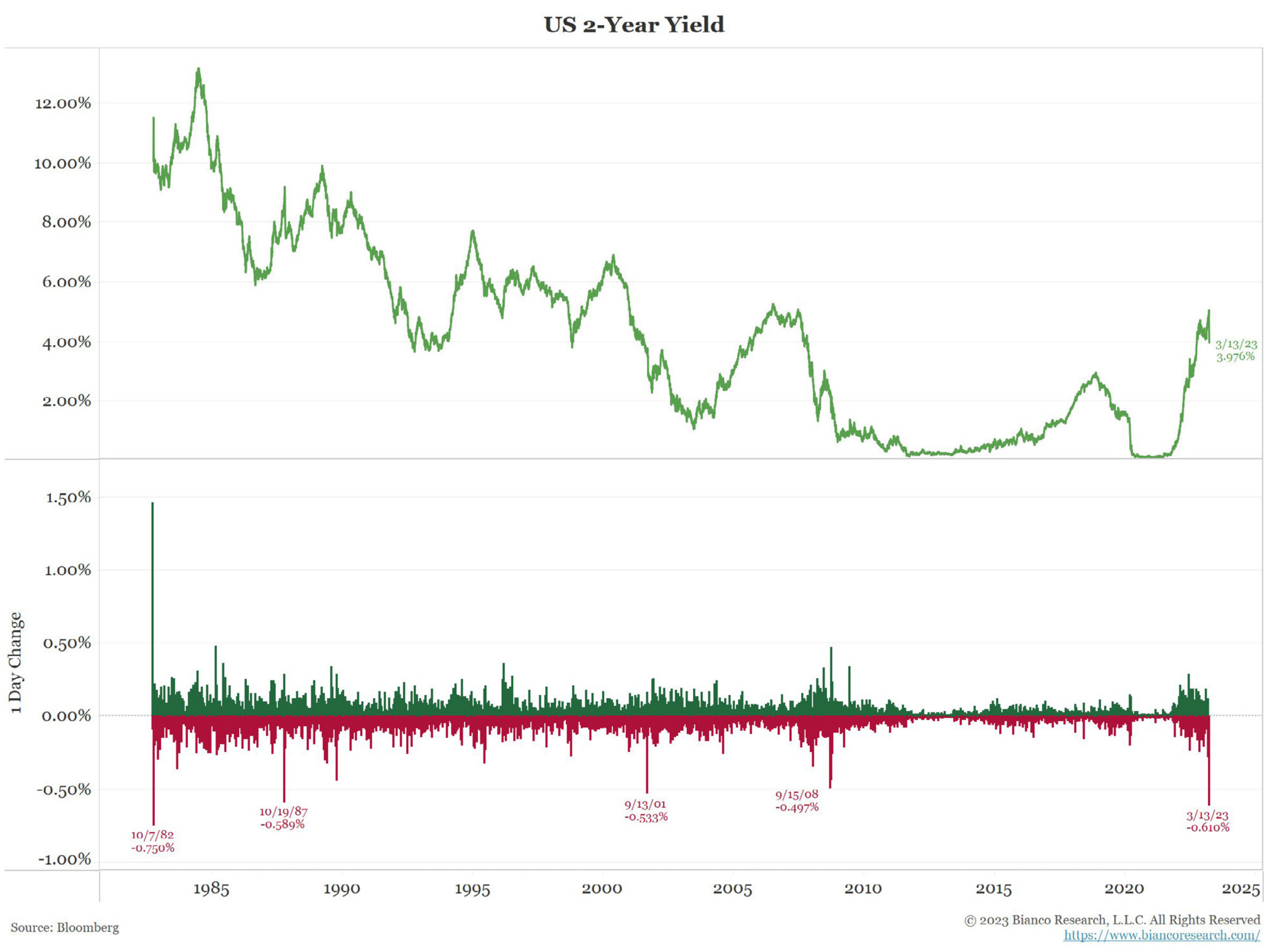
Currencies produced important gains, with the lion's share emanating from long Mexican Peso (Carry, Relative Value and Seasonality). Short exposure to the British Pound (all features), as well as the Aussie (Carry and Trend) and Kiwi (Seasonality) dollars also contributed.

Grains also offered opportunities for positive returns, driven largely from short wheat (all features), combined with long soybeans (all features) and soy meal (Carry, Relative Value and Trend). Longs in bean oil (Carry and Seasonality) and corn (Carry, Relative Value and Seasonality) detracted.

A RECORD-SETTING RATE SHOCK

It's hard to overstate the intensity of the dislocation observed in short-term rate instruments, many of which were unprecedented, brought about by the bank failures in the US last month. To quote Jim Bianco of Bianco Research[2]: "Today (March 13th) the 2-year note yield declined 61 bps. This was the biggest one-day decline since Oct 1, 1982 (the first discount rate cut following the Sept 1981 all-time peak in yields). To emphasize, today's decline in the 2-year was larger than any one day seen during the 2007 - 2009 financial crisis, following 9/11, and the 1987 stock market crash…"

Figure 1. US 2-Year Yield



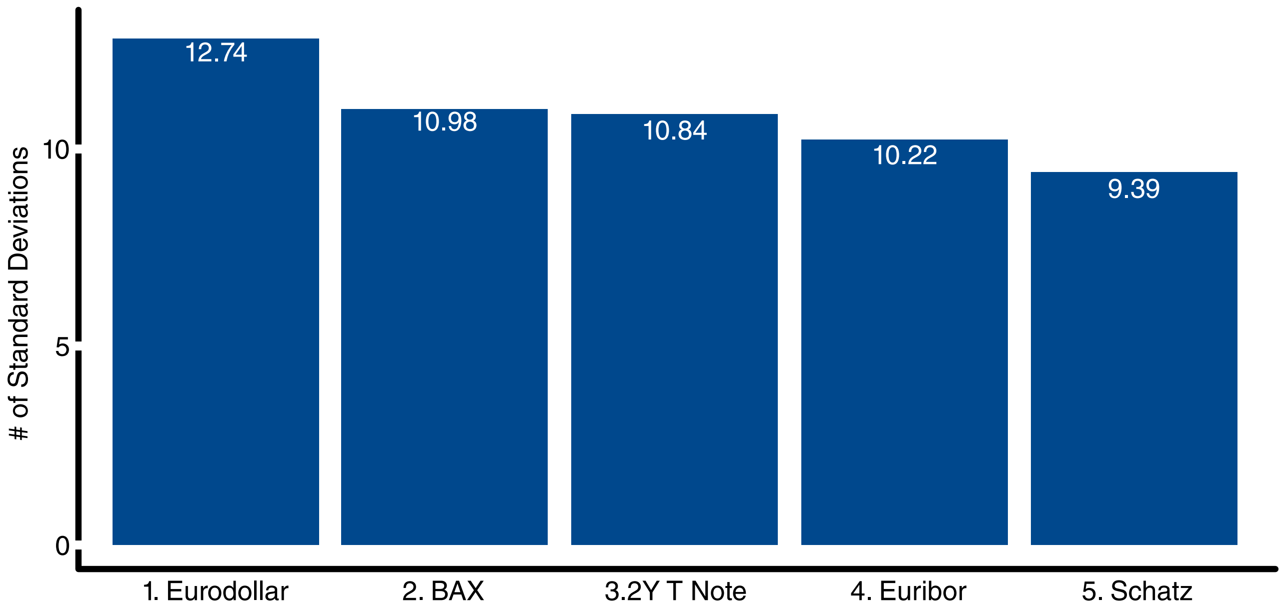
Source: Twitter (@biancoresearch), Bloomberg

It warrants mentioning that the 1982 episode cited above by Bianco took place when the Federal Funds Effective Rates were in double digit territory[3], more than twice the levels observed today, which suggests this most recent episode was proportionally much more significant. The charts below offer yet another perspective on just how enormous this event actually was:

[2] https://twitter.com/biancoresearch/status/1635407339711787008

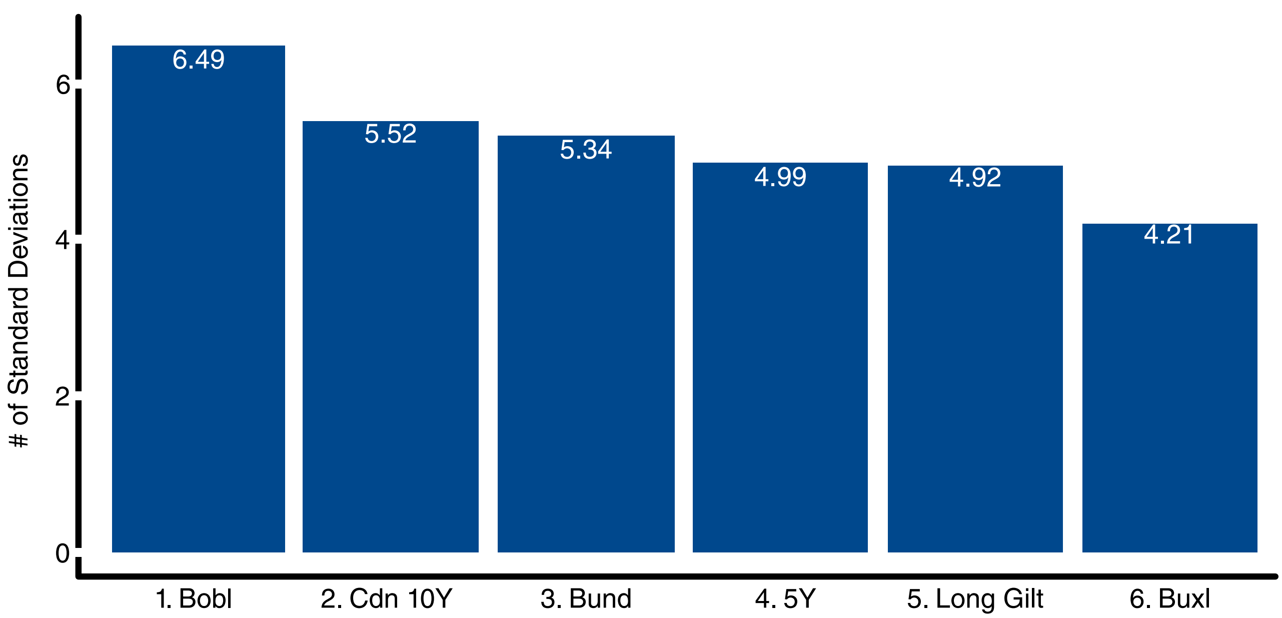
[3] https://fred.stlouisfed.org/series/FEDFUNDS

Figure 2. Number of Standard Deviations Across Select Rate Markets on March 13th, 2023



Source: ReSolve Asset Management SEZC (Cayman). Past performance does not predict future returns. Standard deviation was calculated using the close to close returns for each continuous futures market over the past 40 days. Where the standard deviation calculated is below the 5th percentile of standard deviation for the market over the full history of the market, standard deviation is set to the 5th percentile value.

Figure 3. Number of Standard Deviations Across Select Bond Markets on March 13th, 2023



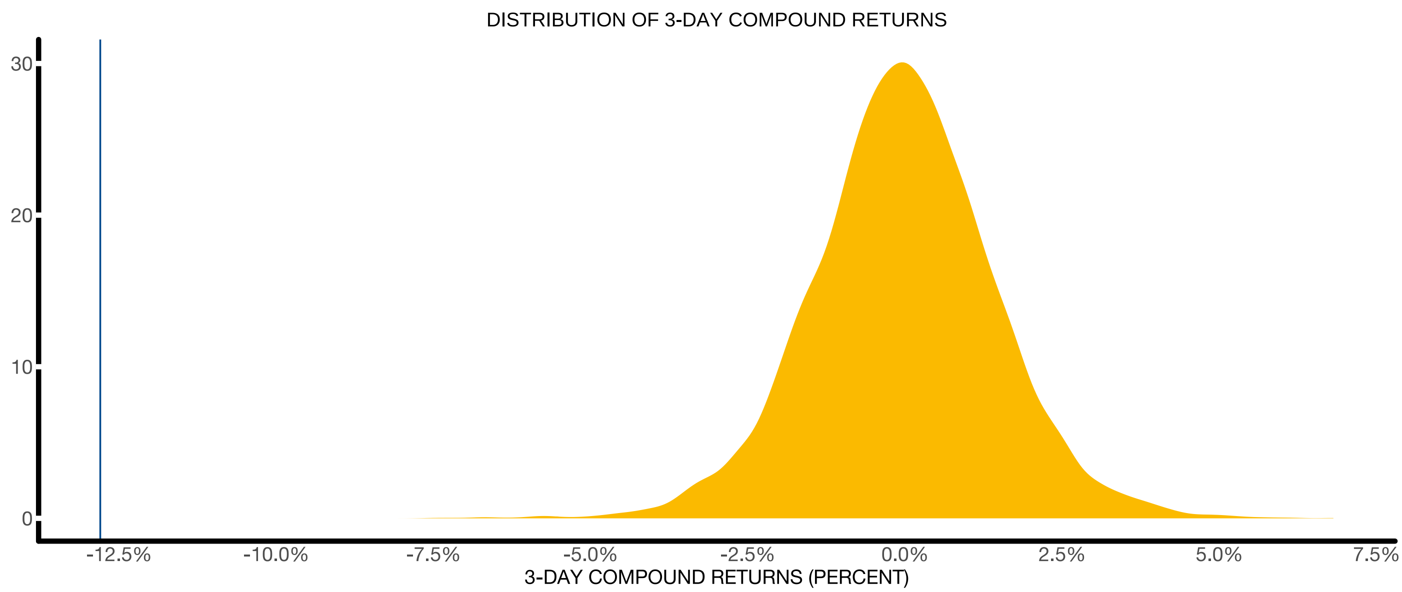
Source: ReSolve Asset Management SEZC (Cayman). Past performance does not predict future returns. Standard deviation was calculated using the close to close returns for each continuous futures market over the past 40 days. Where the standard deviation calculated is below the 5th percentile of standard deviation for the market over the full history of the market, standard deviation is set to the 5th percentile value.

Preliminary return figures suggest that the recent shock had a significant impact on both the global macro and CTA landscape, resulting in widespread losses over the course of the three-day bond and rate shock. The SG CTA benchmark experienced its steepest three-day drop on record. This is not surprising, given the suddenness and magnitude of the shock, since many in the managed futures peer group had profited greatly over the past year and a half by shorting price declines in the global sovereign bond and rate complex.

LESSONS LEARNED AND CONTINUED RESEARCH

While the losses experienced by the Osprey Fund are consistent with other managed futures funds at similar target risk/return levels, the realized 3-day loss was 70 percent larger than the largest loss in simulation that would have resulted from holding the same portfolio on any other day (see Figure 4 below), and five times larger than the 5th percentile conditional value-at-risk (CVar)[4], which is widely considered a good estimate of tail risk. It's clear that these losses could not have been anticipated or priced using any traditional statistical methods.

Figure 4. 3-day loss of Osprey Program (blue line at far left) relative to the distribution of all 3-day losses implied by holding the strategy weights from March 10th, 13th and 14th across all 3-day periods in history – SIMULATED RESULTS



Source: ReSolve Asset Management SEZC (Cayman). Past performance does not predict future returns. Distribution of 3-Day Compound Returns is calculated from Simulated Performance of the Osprey Program from 1990-01-04 to 2023-03-24. You should not take SIMULATED OR HYPOTHETICAL performance as an indication of actual or future performance. Please see the end of this report for Important Information regarding SIMULATED OR HYPOTHETICAL performance. Past performance does not predict future returns.

On March 13th, risk exposures to bonds (20%) and rates (12%) in Osprey, while above average over the full history, were nowhere near portfolio risk limits, much less historic highs. From the perspective of the core families of features that inform our alpha models – namely Carry, Relative Value, Seasonality and Trend – our signals implied a very large edge in being short bonds, rates, and several non-US currencies coming into March 10th and 13th.

While positions should never be so large as to threaten permanent impairment of capital in the event of an extremely unlikely outcome, history shows that maximizing long-term performance accrues from taking prudently meaningful bets when presented with large edges. This is not the first time high expected value bets resulted in an adverse outcome, and it certainly will not be the last. But all things equal, it would be irresponsible to act in any way other than the direction of maximum edge. This fact continues to dominate our ethos at ReSolve.

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[4] CVaR was calculated based on weights from the open on March 10th to the open on March 14th, and applied to all rolling three-day realized market returns from 1990-01-04 to 2023-03-24. The 5th percentile CVaR is the average of all of these 3-day returns conditioned on the returns being in the bottom 5th percentile of the distribution.

That said, the ReSolve investment team was struck by the fact that many other positions common to managed futures strategies but unrelated to the banking crisis experienced strong reversals during the acute phase of this event, implying the existence of a common risk factor, perhaps related to extended CTA positioning. This suggests there may be edges in analyzing the exposures and leverage conditions of managed futures funds in aggregate to forecast future risk conditions and/or trading opportunities. Given our recent research into managed futures CTA replication[5], we are well positioned to explore this concept.

GENERAL MARKET REVIEW

The year began with a rally across global equities and bonds, as decelerating inflation in the US and Europe rekindled hopes that a potential pause in monetary tightening was in sight, even though central bank Chairs on both sides of the Atlantic continued to emphasize a tightening bias. US economic data was robust, especially in February, as GDP and employment figures conveyed resilience. Despite some evidence and expectations of a meaningful activity slowdown across the Atlantic, the European Central Bank and the Bank of England continued raising rates.

As reopening and activity normalization began to gain traction, the People's Bank of China issued a cautiously optimistic report on the economy, which is expected to rebound and be marginally supportive to the global economy. The toll from prolonged shutdowns in the Middle Kingdom was laid bare when last year's meager 3 percent GDP growth was announced, a multi-decade low and barely half the 5.5 percent target.

Japanese GDP for the fourth quarter of last year fell short of expectations, as did several other economic indicators, while inflation accelerated. If persistent, this dynamic would pose a grave challenge to the Bank of Japan's ultra-loose monetary policy of Yield Curve Control (YCC), which has led to the BOJ accumulating approximately half of the country's outstanding debt[6] over the past few decades.

The war in Ukraine raged on, with both sides speculated to be preparing for a spring offensive that could break the apparent stalemate of recent months. The Black Sea Grain Initiative was renewed, allowing food and fertilizers to continue flowing from southern Ukrainian ports, though Ukrainian and Russian officials disagreed on the extension's duration.

During the second week of March, huge (albeit unrealized) losses from Treasury holdings, that had been accumulating across the US banking system since the Fed began raising rates, precipitated the first bank run of the digital age[7]. A tsunami of depositor capital was rapidly drained from smaller regional banks, and financial institutions otherwise perceived as "non-systematically important", and into the (relative) safety and extra yield offered by Treasuries and other sovereign debt.

Just days after coordinating fresh US dollar funding facilities with other central banks to alleviate the market turmoil that ensued, the Fed once again raised rates, though less than previously expected and in line with the dislocations implied by the yield curve. Importantly, the Chairman admitted the FOMC considered pausing[8], fueling speculation especially across duration-sensitive risk assets.

Table 2. Q1 2023 Asset-class Highlights

	Robusta Coffee	Nasdaq	Sugar	European Equities	Nikkei	Copper	Gold	German 30y Buxl	US 30y Treasury	Soymeal	US Dollar Index	Diesel	Wheat	US Natural Gas
Q1 Returns	22.1%	19.3%	18.3%	14.3%	8.9%	7.5%	6.8%	4.7%	4.2%	2.3%	-0.7%	-11.1%	-14.0%	-51.9%
Annualized Volatility	22.3%	21.8%	23.5%	18.3%	13.9%	22.9%	15.6%	27.9%	13.9%	21.7%	8.2%	39.8%	25.2%	81.5%
Maximum Peak to Trough Loss	-6.3%	-7.8%	-5.4%	-6.7%	-5.9%	-9.8%	-7.2%	-13.7%	-7.6%	-11.2%	-3.6%	-25.1%	-17.6%	-54.3%

Source: Data from Tiingo. Using continuous futures contracts. Returns are expressed in USD. European Equities represent the EStoxx50 Index.

5 https://investresolve.com/inc/uploads/pdf/peering-around-corners-how-to-replicate-trend-following-managed-futures-whitepaper.pdf

6 https://asia.nikkei.com/Business/Markets/Bonds/BOJ-holds-over-50-of-Japanese-government-bonds-for-1st-time

7 https://www.bloomberg.com/news/articles/2023-03-12/silicon-valley-bank-s-fall-was-a-faster-more-viral-breed-of-bank-run#xj4y7vzkg

8 https://www.bloomberg.com/news/videos/2023-03-22/powell-fed-considered-rate-pause-consensus-backed-hike

MACRO OUTLOOK

The Fed's tightrope has become a lot thinner; though financial stability concerns appear to be relatively contained for the moment, additional tremors of sufficient magnitude could force their hand even if inflation remains well above target. A group of midsized US banks requested regulators to extend FDIC insurance to all deposits for the next two years[9]. Even if regulators can momentarily arrest the bleed with sweeping guarantees for small and midsized institutions, the US regional banking system has been dealt a heavy blow that could reshape the industry. The question of recession may be about depth and duration, while another (and perhaps more consequential) congressional 'debt ceiling showdown' approaches just as foreign appetite for US Treasury securities may have peaked.

Strong remarks from top Chinese officials of "conflict and confrontation" and "unprecedented grave challenges to our nation's development" showed just how strained US-Sino relations have become after Washington imposed additional measures to restrict China's access to the most advanced microprocessors. Beijing also criticized new developments in the AUKUS defense pact between the US, UK and Australia, denouncing a "dangerous road" lay ahead. Not surprisingly, defense spending grew as a share of budget when the Middle Kingdom announced its GDP growth target of "around 5 percent"[10] during its annual parliamentary gathering.

China's geopolitical ambitions were on full display as President Xi visited his Russian counterpart, reaffirming the two countries' 'limitless friendship' and offering a peace proposal that would allow Moscow to keep Crimea and other territories annexed in 2014 (promptly rejected by Kyiv). The Chinese also participated in a historical rapprochement between Saudi Arabia and Iran, while the former is also reported to be considering accepting Yuan instead of Dollars for Saudi oil[11], an unprecedented break from the Petrodollar System. Intentions were further solidified when it was announced that, in partnership with Brazil, India, Russia and South Africa, the so-called BRICS are now seeking to develop a new currency to rival the US dollar.

WRAPPING UP

We are committed to learning from the recent market events and refining our strategy to ensure that it remains robust and resilient. We believe that the insights gained from this experience will allow us to make important, distinguishing enhancements for dealing with similar events in the future. And despite the recent shock, these tumultuous periods tend to provide ample opportunities for nimble long/short strategies to profit from. We have full confidence that the current suite of alpha sleeves within Osprey can take advantage of the dislocations that are likely to emerge across the 80 markets we trade in.

Don't hesitate to reach out if you have any questions.

Sincerely,

Your ReSolve Team

9 https://www.bnnbloomberg.ca/midsize-us-banks-ask-fdic-to-insure-all-deposits-for-two-years-1.1897285

10 https://www.reuters.com/world/china/chinas-economy-government-revamp-focus-parliament-set-open-2023-03-04/

11 https://www.wsj.com/articles/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541

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