PERFORMANCE REVIEW

The Osprey Fund struggled in the final quarter of 2023, declining by -10.9 percent and giving up the strong gains of the previous quarter. The fund closed the year with a -5.1 percent return. Seasonality was the best performing feature family in the fourth quarter, while Carry suffered losses, primarily in December. Despite the recent underperformance, Carry was by far the best feature of 2023; Seasonality was flat, while Relative Value and Trend sustained losses.

Table 1. Q4 Return Attribution

Sector	Q4	2023
Bonds	-4.7%	-6.7%
Currencies	-3.4%	2.5%
Energies	-3.6%	-2.6%
Grains	-0.6%	-4.9%
Indices	1.6%	7.2%
Volatility	0.0%	0.1%
Meats	0.0%	0.0%
Metals	-1.1%	-3.6%
Rates	-0.6%	-1.1%
Softs	1.4%	4.0%
Total	**-10.9%**	**-5.1%**

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.

Equity indices were the best performers, led by longs in Spanish IBEX (all features, led by Carry), Italian MIB (all features, led by Carry), S&P500 (Relative Value and Seasonality), Nasdaq (Relative Value), EStoxx50 (Carry and Seasonality) and Aussie200 (Carry, Relative Value and Seasonality).

Softs also contributed positively, primarily due to long UK cocoa (Carry, Relative Value and Trend), while long Robusta coffee (Carry, Relative Value and Trend) added to gains.

Bonds were the worst performers, with the lion's share of losses stemming from short German 30-year Buxl (Relative Value, Seasonality and Trend). Short Korean 10-year (Carry, Relative Value and Seasonality) and German 2-year Schatz (Carry) also detracted, while long UK Gilts (all features), Canadian 10-year (Carry and Seasonality) and US 2-year Treasuries (Carry and Relative Value) provided important offsetting gains.

Energies suffered primarily due to longs in Brent and WTI crude oil (motivated by all features, led by Relative Value) earlier in the quarter. Active trades in diesel (Relative Value, Seasonality and Trend) were also unprofitable, while shorts in gasoline (all features) and carbon emissions (Carry, Trend and Seasonality) offered positive returns.

Currencies also sustained losses, driven by shorts in the Swiss Franc (Carry and Relative Value) and Japanese Yen (Carry, Seasonality and Trend), along with active trading the Canadian Dollar (Relative Value, Seasonality and Trend). Long Kiwi Dollar (Carry and Seasonality) and Euro (Relative Value, Seasonality and Trend) generated gains.

Metals endured losses from short gold (all features) earlier in the quarter, which were partially offset as Seasonality and Trend drove the portfolio to a long exposure later in the quarter. Active trading in platinum (Relative Value and Seasonality) also detracted.

Grains underperformed largely due to long palm oil (Relative Value, Seasonality and Trend) and bean oil (Carry and Seasonality), with important positive contributions from short canola and corn (both motivated by Relative Value and Trend).

Rates detracted exclusively from short Euribor (Carry), while long BAX (Seasonality and Trend) produced meaningful gains.

RESEARCH HIGHLIGHTS

ReSolve continues to allocate meaningful time and resources in developing technology infrastructure to help facilitate a first-class automated portfolio management engine. In Q2 2023, ReSolve deployed an asynchronous trade execution engine that is designed to maximize execution speed and allows for trade execution at higher frequencies.

In 2024, ReSolve aims to deploy two additional core pieces of technology:

- A new data engine that will accelerate the research process, ensure even higher levels of data quality and will enable near real-time forecasting and trade execution
- An asynchronous feature engineering and signal generation engine that is optimized for computational efficiency and can support a wider range of feature data, prediction model classes and forecast horizons

In concert, the core technology infrastructure will allow for innovation on multiple research fronts:

- Near real-time data and asynchronous trade execution will allow for the deployment of faster moving strategies. In the short term, ReSolve seeks to reduce the time between signal generation and trade execution, allowing for same-day trade execution with minimal latency between the time in which market information is processed and orders are executed
- The new data engine will allow for more expansive feature engineering as well as the ability to trade a more diverse set of market instruments, including calendar spreads and other synthetic markets that are generally uncorrelated with traditional markets
- Preliminary research suggests that there are opportunities to reduce execution costs without sacrificing the net prediction model fidelity by optimizing forecast horizons so that they are made aware of the unique characteristics displayed by each market. Specifically, ReSolve's current prediction modelling approach seeks to forecast returns universally for all markets over a 1-5 day horizon. With the deployment of the new feature and signal generation engine, ReSolve will be equipped to build models over a wider range of forecast horizons and to customize and capture the potentially unique characteristics exhibited by each market, such as signal autocorrelation, liquidity, and trade cost slippage
- The new prediction modelling infrastructure is also capable of supporting a wider range of prediction model classes. Preliminary research indicates promising results by applying state-of-the-art tree-based forecast models. These models are distinct from the existing production models in that they are able to more effectively capture state dependency and other conditionality relationships between features and markets. Such an approach allows for the assembly of much richer collection of small informational edges that generalize out-of-sample and are less likely to be commoditized by other market participants

GENERAL MARKET REVIEW

US economic data offered signs that a rare soft landing might in fact be underway. GDP accelerated in the third quarter, beating estimates and annualizing at 4.9 percent. It was the fastest pace of the last two years and displayed remarkable resilience in the face of high interest rates. CPI rose by 3.1 percent, just below consensus, benefitting from sliding gasoline prices to offset food, shelter and medical care. The Fed's preferred PCE annualized at 1.9 percent over the previous 6 months while the core reading actually fell from the prior month, the first outright decline since April 2020. November payroll figures grew versus the previous month and beat expectations, while the unemployment rate crept back down to 3.7 percent.

The final FOMC meeting of the year kept interest rates unchanged at their 22-year high, but showed most members expect a reduction of as much as 75 basis points in 2024 as inflation converges to an annualized 2.4 percent, unemployment hits 4.1 percent, and growth continues at a similar pace, according to their forecast. Powell carried the sanguine message forward in his press conference, setting the tone for the strong rally in risk assets into year end.

Despite a warning from the European Central Bank's president that rates would hold steady for "the next couple of quarters", the decline in Eurozone inflation to 2.4 percent – the slowest annual pace in more than 2 years and within sight of the ECB's 2 percent target – further fueled global risk appetite. Like the ECB, the Bank of England kept policy rates unchanged through the final quarter of the year, as inflation also declined across the channel, albeit still annualizing at 4.6 percent.

Moody's downgraded its outlook on Chinese sovereign credit in the wake of decelerating growth and continued real estate woes in the Middle Kingdom. Japanese GDP shrank by 0.7 percent in the third quarter, more than forecasted by economists, which could impair the Bank of Japan's apparent plan to normalize its ultra-loose monetary policy.

Energy prices continued to slide as the US increased crude oil production to a record 13.2 million barrels a day, surpassing Russian and Saudi output. Weaker demand, especially from China, replaced geopolitical concerns and also weighed on the energy complex. The apparent dovish pivot by the Fed weakened the US dollar and benefitted gold, which rose to a record high (in USD terms) in December, and other precious metals. Disruptions related to the El Niño weather phenomenon in major producing countries catalyzed a major rally in coffee and cocoa prices, while expectations of increased production in Brazil alleviated supply concerns and sent sugar prices tumbling.

Table 2. Q4 2023 Asset-class Highlights

	Arabica Coffee	German 30y Buxl	Nasdaq	Russell 2000	Wheat	Gold	US 30y Treasury	European Equities	US Dollar	Milling Wheat	Diesel	WTI Crude	Sugar
Q4 Returns	34.2%	15.8%	13.1%	12.7%	10.5%	10.3%	9.5%	7.1%	-4.2%	-7.9%	-17.5%	-20.3%	-22.7%
Annualized Volatility	38.2%	17.8%	15.6%	23.6%	28.9%	13.8%	15.5%	11.6%	7.5%	16.5%	32.7%	36.6%	35.1%
Maximum Peak to Trough Loss	-7.3%	-4.2%	-7.7%	-8.5%	-10.1%	-4.5%	-5.2%	-4.6%	-5.4%	-10.4%	-21.5%	-23.4%	-27.0%

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

MACRO OUTLOOK

A narrowly averted government shutdown, an expected doubling of the federal budget deficit and a national debt milestone of 33 trillion dollars further contributed to the souring mood, bringing the precarious US fiscal position into focus. It is estimated[1] that an unprecedented USD 8 trillion of government debt will be maturing over the next 12 months, or approximately one-third of total outstanding Treasuries. That represents more than 3.5 times total net issuance in 2023, notwithstanding the additional USD 2 trillion that must be issued to cover the expected budget deficit for 2024. Given this trajectory, it is hard to imagine the Fed sustaining balance sheet run-off (so-called Quantitative Tightening) for much longer. If the US is forced into outright debt monetization, it would have severe consequences for the global reserve currency and the Treasury market.

The war in Ukraine seems to have ground to a stalemate, with no end in sight. Conflict in the Middle East has affected global shipping and could escalate at any moment. US-Sino relations remain strained, despite recent diplomatic efforts for rapprochement, and might be further complicated by the upcoming elections in Taiwan. A growing number of countries, led by the BRICS, have been moving away from the US dollar and conducting bilateral trade in their own currencies. It has been many decades since the world saw this much geopolitical tension. As the paradigm continues to shift, investors should continue to focus on diversification, rebalancing portfolios and managing risk as opportunities arise.

Sincerely,

Your ReSolve Team

[1] https://twitter.com/TaviCosta/status/1724287792920871059

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