2022 Investment Outlook

CAPRICORN
PRIVATE INVESTMENTS

EXECUTIVE SUMMARY

After another tumultuous and volatile year, we think a good way to start this letter is to remind readers of our approach to investing, namely:

1. We manage portfolios for the long term whilst protecting against a permanent loss of capital
2. Time in the market rather than timing the market leads to the strongest long-term returns
3. Only paying fees to those best-in-class managers and strategies where we believe there is a strong opportunity to generate outperformance net of fees against a suitable, low-cost, investable benchmark
4. Biasing our portfolio to less liquid strategies in order to capture high and differentiating return drivers

Reflecting on our performance in 2021, our private equity performed strongly, but this was offset by public markets as some of our longer-term investment themes fell out of favour. We continue to maintain our long-standing investment themes and have made no material changes to our portfolios given our long-term approach; however, we have made a few tactical shifts including exiting our gold position and adding energy equities.

The remainder of this letter goes into the above topics in further detail, covers market performance and our outlook. Our key conclusions are that we expect tighter liquidity conditions to create a more difficult backdrop for investors. We would expect inflation to moderate from current levels as base effects come into play and monetary and fiscal stimulus are reduced, but do not see a return to pre-Covid levels of inflation for at least a few years. We also discuss our investment into blockchain, which we see as a growing area of importance with rising use cases across financial services, logistics and gaming.

During the year we welcomed some new families to our client roster and crossed over $1B in assets under advice.

We thank you for your support and look forward to seeing you in the near future,

Capricorn Private Investments Team

PUBLIC MARKETS REVIEW

Whilst headline performance of global benchmarks such as the MSCI World All Country Index (+18.5%) was relatively strong by historic standards, it masked a wide dispersion across geographies, sectors and market caps. Outside of equities and commodities, performance was generally either flat or negative for the majority of assets.

Entering 2021 we anticipated the year would be one of strong growth off the back of a combination of a successful vaccine roll-out, pent-up demand from increased savings, prevailing low interest rates (albeit likely to move a little higher) and ongoing fiscal stimulus. We also said that "the ingredients for higher inflation are there but the timing on its emergence is uncertain".

It turns out we were partially right. While it was a good year for growth generally, it was the deep value cyclical stocks within sectors such as Energy and Commodities that outperformed as increased demand and supply chain issues forced general prices (i.e. inflation) much higher. Large cap US stocks also continued to perform well, benefitting from strong inflows into equities, primarily into Index ETFs. It is worth noting that US equities' outperformance relative to non-US equities stands well above any historical precedent.

US stocks vs Rest-of-World since 1950
US vs developed market equities (ex-US) price relative (US$)

Source: Bank of America

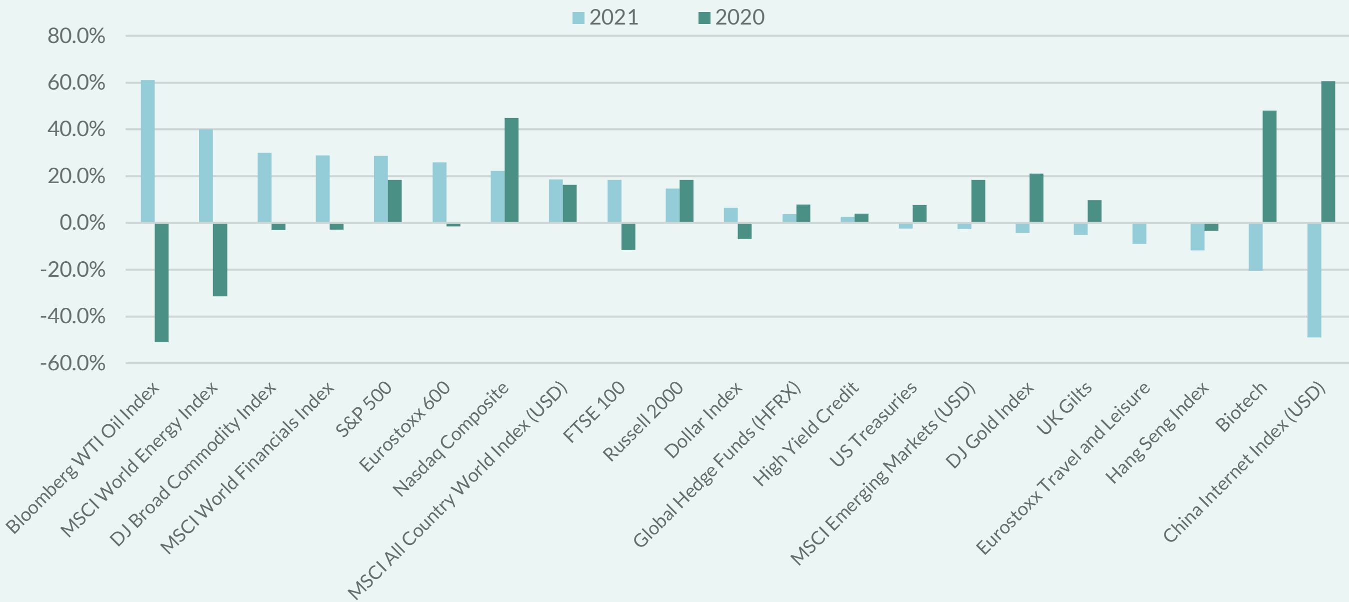
The weight of the top 5 stocks is near its highest level in the last 40 years.

Source: Goldman Sachs

In 2021 the "big got bigger" as the share of market capitalization dominated by the top-5 stocks in the S&P 500 reached all-time highs. We don't particularly perceive this phenomenon to be at a high risk of imminent mean reversion given the valuations for these stocks are not extreme.

As can be seen from the asset class performance chart below, performance was concentrated in large cap developed equities and commodities with EM, Fixed Income and hedge funds generally underperforming. In many ways 2021 was the inverse of 2020.

Asset Class Performance (2020 and 2021) – 2020 winners and losers flipped positions in 2021

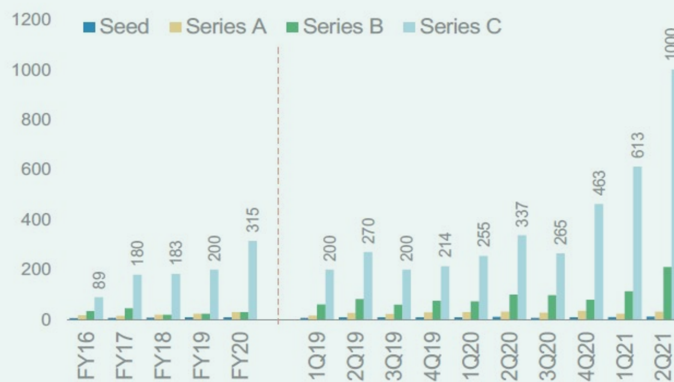


Source: Bloomberg, DB

PRIVATE MARKETS REVIEW

Whilst there were some quite significant gyrations across public markets, private markets continued to gather meaningful interest across a range of different strategies. Last year saw the largest ever fund raises across buy-out and venture capital. The likes of Tiger Global with their $6.8B venture fund (originally targeting $3.8B) have changed the volume and speed at which allocations occur and have moved the market to a new (and arguably riskier) way of operating. Unsurprisingly, valuations increased in line with this influx of capital. The below chart from Morgan Stanley (who gather data from various sources) shows the median Series C valuation rising from $89M in 2016 to $1B in 2021 with a near doubling just in 2021.

Venture Capital valuations have increased significantly

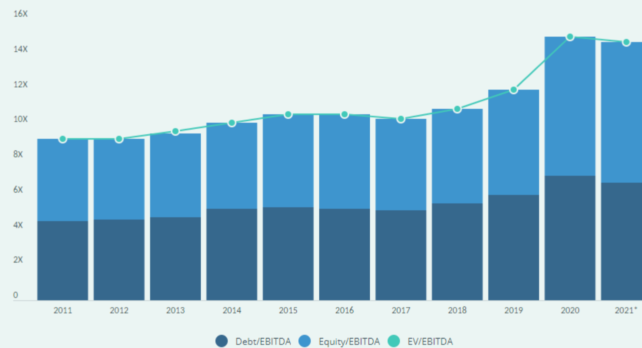


Source: Morgan Stanley

Private equity multiples behaved similarly, though appear to be plateauing – a forthcoming rise in interest rates may well lead to some better opportunities to buy at lower valuations in this segment in the not-too-distant future:

PE multiples have risen significantly in recent years

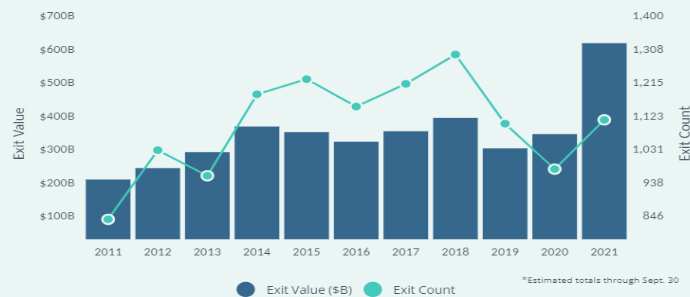
Rolling three-year median PE middle-market multiples



Source: Pitchbook

On the flipside, 2021 was a record year for PE/VC backed exits as companies took advantage of strong capital markets in the first half of 2021. However, there was some considerable "indigestion" with a number of IPOs trading lower several months after listing – the Renaissance IPO Index which tracks the performance of all US IPOs fell -10% in 2021.

2021 was a record year for PE exits by value



Source: Pitchbook, 30/9/21

We also noted structural changes in the industry following the significant increase in capital. Many managers crossed into other parts of the market, becoming "full cycle" in nature. For example, the long-standing US venture capital firm Sequoia announcing a move to create a single fund that will be able to support companies from seed to exit and maintain significant exposure to public companies. We also saw traditionally large public market investors such as Tiger and Coatue, as well as private equity firms such as Blackstone, launching large growth fund initiatives blurring the lines between these once quite different investors. We also witnessed the increased impact of the growing "angel" community of founders who have recently exited companies with enormous wealth and are looking to back the next generation. In conclusion, we expect more and more cross-over investment between different players, and more competition to close deals going forward.

However, in the near term, recent public market corrections of fast-growing but non-profit generating companies are likely to spill over into the private markets space which could see some healthy rebalancing of valuations into 2022.

PERFORMANCE REVIEW

Given the diversified nature of our portfolios, performance ranged from mid-single digit to low-double digits for most multi-asset class mandates. Portfolios with a greater weighting to private equity (at least three years old) performed best as valuations rose and successful exits were achieved despite some weak market undercurrents for new issues. Our average multiple for PE and VC funds initiated in 2018/2019 was 1.7x (as at Sep-21) with IRRs on average greater than 50% with most funds just completing their investment period in 2021. Given this promising start, we are optimistic about strong returns from this vintage.

Our public multi-asset class model portfolio comprising fixed income, absolute return and equities (and excluding all private equity and other illiquid investments) returned +4% versus a multi-asset benchmark performance of +8.8%. This compared to +13.5% versus +10.0% respectively in 2020 and a -11% drawdown in Q1 2020 versus benchmark performance of -17%. Last year's performance is somewhat disappointing, so we wanted to critically reflect on this even though twelve months is a relatively short period to assess.

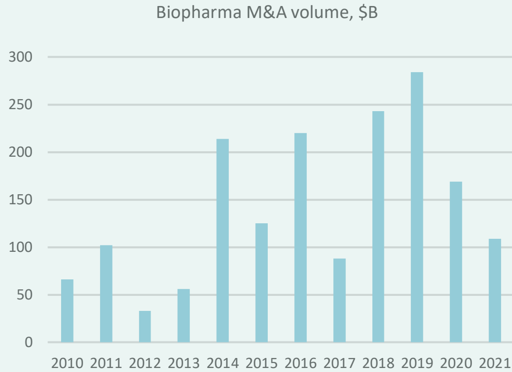
As a reminder our approach is to invest for the long term and in a thematic manner. This can lead to significant deviations to benchmarks over both a short and long-term horizon.

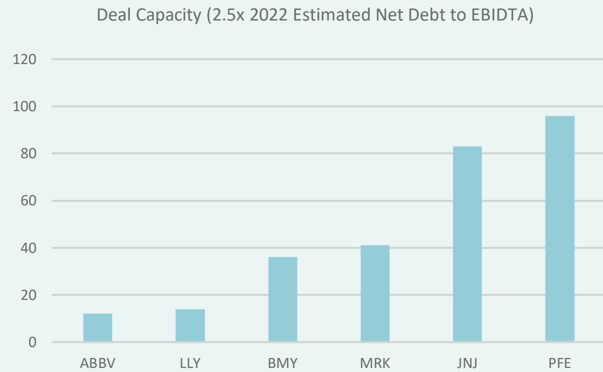
There were four main drivers of underperformance in 2021:

1. **Biotech:** our portfolios generally contain a mid-single digit exposure to Biotech. This sector experienced its worst relative performance to the S&P 500 since 1998, underperforming by almost 50%. The lag was mainly down to a combination of 1) regulatory uncertainty as a new FDA head was appointed, 2) lower M&A as a result, 3) concern drugs would be used as method of payment to fund the $1Tr+ Build Back Better programme, 4) a greater focus on reviewing and approving Covid-related drugs / vaccines, and finally 5) the prospect of higher interest rates weighing on a low-revenue and profit-generating sector given its early stage company bias.

   Some of these headwinds remain but we expect them to be temporary. Both the appointment of a new FDA chair and an increase in large cap pharma's M&A budget due to excess Covid vaccine profits should support increased M&A activity in the sector. The pace of innovation in the sector remains strong and as Covid-19 starts to move into the background we believe this will improve broader sentiment. Higher interest rates remain a headwind and have led to continued underperformance in January; however, we remain committed to our positions across equity, credit and VC and expect our managers, whose approach is rooted in deep scientific research, to yield strong results in time.

Biotech M&A was historically low in 2021, but with big pharma firepower increasing following vaccine profits, the backdrop looks better going forward

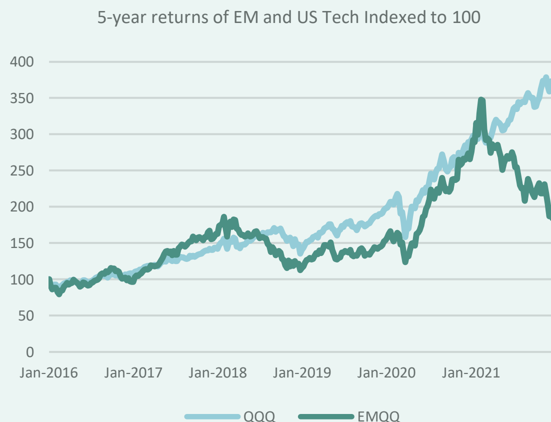




Source: RTW

2. **Emerging Markets Technology:** emerging markets equity comprises c.15% of our equities allocation, and whilst not overweight to this area we do have a skew to emerging market technology stocks as the sector has high growth prospects and considerably lower valuations relative to US equivalents. However, EM suffered its worst performance gap for almost a decade falling -2.5% in 2021 compared to the S&P 500 return of +29%. A c.32% performance gap has only been exceeded twice (-37% in 2013 and -52% in 1998 when Russia defaulted). There were a few key issues impacting EM – a number of countries were forced to raise rates to contain inflation, thus taking the "medicine" early versus developed market counterparts. This naturally impacted growth and sentiment in 2021. As mentioned in previous letters we thought EM countries would struggle to cope with the impact of Covid-19 given the limited financial flexibility at their disposal and their reduced access to vaccines. The EM tech sector suffered more than the broader EM index as a combination of regulatory crackdowns in China and the impact of higher interest rates weighed on the sector. We believe the worst is largely behind us with c.60% falls from peak in many large cap bell-weather names in spite of being still profitable and growing companies. The timing of a turn in share prices remains uncertain, and it will require positive messaging from the Chinese government supporting their economy and the market fully pricing in the impact of higher interest rates before outperformance can take hold.

EM Tech has lagged dramatically since the beginning of 2021



Source: Bloomberg

3. **Reopening / Travel and Leisure:** a few of our active managers entered the year invested in a "reopening" theme centred around travel and leisure within developed markets. This turned out to be quite a difficult space as new covid variants put pressure on these positions. A number of European countries entering lockdowns in December soured sentiment leading to European Travel and Leisure ending the year down -9% versus a +26% return for the main index. The combination of increased vaccine boosting and lower severity of the latest Omicron variant leads us to conclude that this theme should play out more successfully in 2022.

4. **Gold:** we entered this position in mid-2019 around the time real yields (real yields being the return on bonds after expected inflation) began to fall as the Federal Reserve was forced to cut interest rates amid a slowdown in growth. This led to us initiating the position which has historically performed well in a falling real yield environment and also acts as a flight to safety asset. Gold performed well for us in 2020 adding to portfolio performance around the early impact of Covid. It has since reversed some of these gains as real yields first stabilised and have now begun to rise as the central banks begin the process of raising rates. We exited the position in the beginning of 2022 as we expect that further increases in real yields may put pressure on Gold prices. We have also initiated other tail risk hedges to protect portfolios in deeply adverse market conditions which further reduced the need to hold the position.

OUTLOOK

Where will the 10-year US Treasury yield be in 12 months?

What will the stock market return?

What will be the best performing sectors?

What will the rate of inflation be?

The answer to all of the above is "we don't know".

Our aim isn't to forecast but to build resilient long-term portfolios. All investing is probabilistic in nature and the shorter the time period the less likely you are to be correct. Any number of events can upset a forecast; however, we do layout our views below on some key topics which impact our portfolios.

How do we see inflation playing out?

Much has been written on this topic and we've spent considerable time reviewing myriad reports on the subject in 2021. Most countries have experienced higher inflation and the main drivers have been:

1) High demand for goods (over services) which have been heavily impacted by supply chain disruption, exacerbated by Covid-19 disruptions through the entire year

2) High demand for housing – also impacted by supply chain disruption and post GFC lack of investment

3) A squeeze on labour, as people have exited the workforce in greater numbers to either retire early, care for children or deal with health issues created by Covid

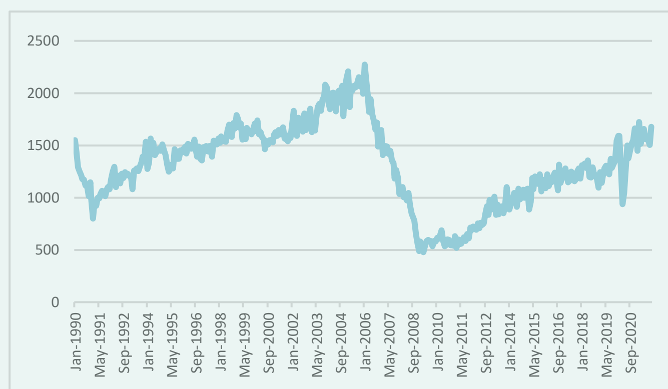
4) A squeeze in energy prices driven by a collapse of investment in fossil fuel production combined with continued high energy demand and a subsequent failure of alternatives to fill the gap

How do we think these drivers will behave going forward?

Supply chain: our central thesis is that Covid becomes endemic and worker restrictions ease which begins to smooth the issue, though it will take time – probably 12-24 months before we see normal functioning supply chains. We note China's zero Covid stance does make this challenge harder than it otherwise could be.

Housing: post GFC under investment and changes in US demographics have led to more household formation and upward pressure on rents and housing costs. At this time supply chain and labour issues continue to keep construction below potential demand, but will eventually find balance as Covid-19 restrictions ease, as with the supply chain issues mentioned above.

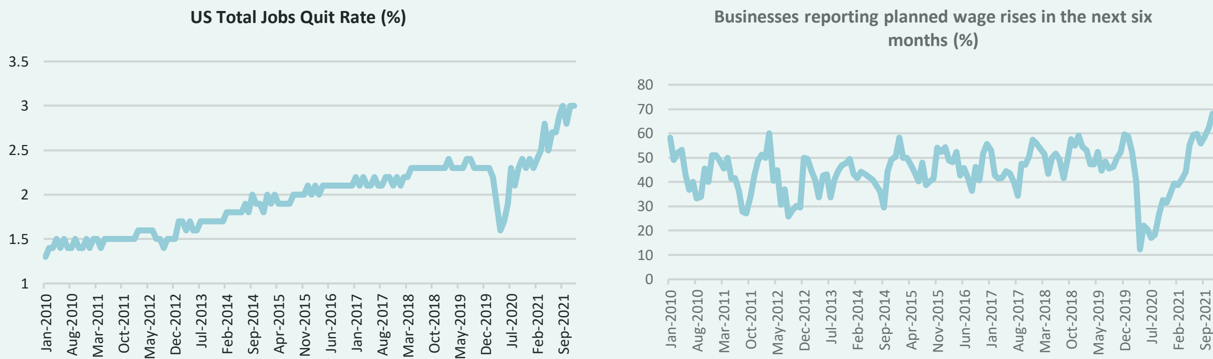
US housing starts are beginning to recover



Source: Bloomberg

Labour: here it is more difficult to see a supply/demand rebalancing occur quickly. With c.4 million fewer people now employed in the US relative to pre-Covid levels and record levels of employment in most countries, it would not surprise us to see continued wage inflation as labour markets look like they will remain tighter for longer. We had expected the labour market tightness to normalise once furlough schemes ended, but it appears that the savings built up during the pandemic have given workers a far better negotiating position than they could have imagined 12 or so months ago. This tightness is reflected in the percentage of workers leaving their employment and large proportions of businesses planning wage increases. A portion of the recent spike in workers leaving their roles can be explained by the dip seen in 2020 where the pandemic slowed employment turnover, so there was expected to be a "catch-up". Nevertheless, in aggregate we'd expect wage increases to continue unless central banks do not move to tighten up liquidity and reduce demand.

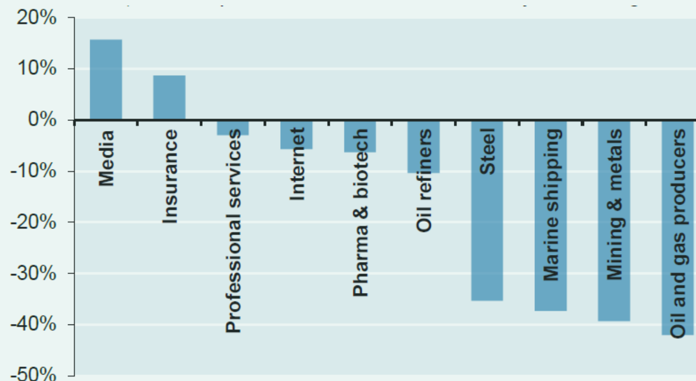
Job quits and anticipated wage increases are at decade highs



Source: Bloomberg

Energy: we see prices remaining firm in oil and gas. There has been a sustained lack of investment in fossil fuels given de-carbonisation targets; however, as fossil fuel usage is reduced there needs to be another form of energy to replace it and the low carbon alternatives have not yet scaled sufficiently. Witness electricity prices spikes in Europe/UK in the late autumn due to “unusually low levels of wind”[1]. There is also a lack of storage technology at scale which is needed to make renewables such as wind and solar work more efficiently. There also needs to be a consideration to the amount of fossil fuels needed to build renewable infrastructure (the carbon fibre in Wind Turbines, the high temperatures needed to create silica in solar panels and so forth). It seems to us that energy price spikes are going to remain an issue for some time to come. This will also feed into higher food and transport costs. Of all the key drivers of inflation this one worries us the most.

There has been a collapse in energy intensive industries relative to others (2022 expected vs 10-year average)



Source: JPM. Eye on the Market (Dec 2021)

[1] https://www.bloomberg.com/news/articles/2021-09-13/u-k-power-prices-hit-record-as-outages-low-winds-cut-supply

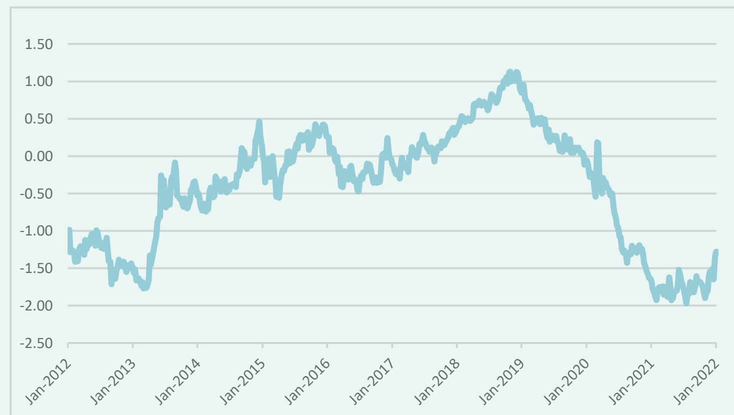
Our conclusion is that inflation is likely to peak soon due to base effects but it should start to decline into the second half of 2022. However, we struggle to see a return to pre-Covid era levels of inflation, at least for the next few years while energy, labour and supply chain issues remain.

What does this mean for interest rates?

As we wrote in our previous letter, we expected interest rates to remain low as we worked our way out of the pandemic. It now looks like the combined fiscal and monetary stimulus has been more than sufficient and economies have been more resilient to Covid than anticipated. Most countries have recovered or gone ahead of pre-Covid levels of GDP and we've reached a level where that stimulus needs to be reduced or stopped.

We have started to see this occur as real yields begin to move higher, and our base case is that this needs to continue increasing to keep inflation in check, at least toward the zero area.

The 5-year real interest rate is bottoming out and heading higher



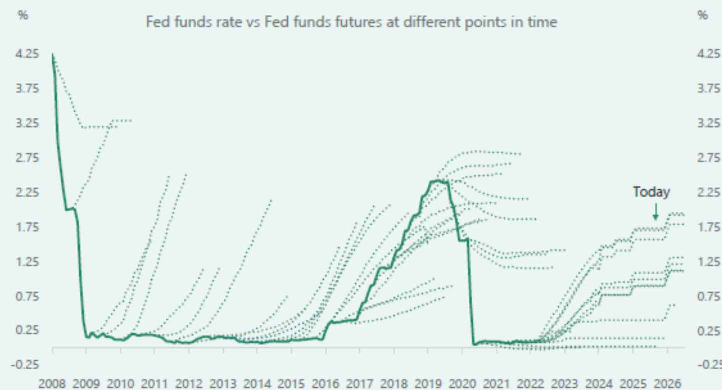
However, debt levels remain very high making it difficult to raise rates meaningfully – this from Torsten Slok of Apollo: *"The level of US government debt outstanding limits how much the Fed can raise rates. With total debt held by the public at $23trn a, say, 2% increase in the entire yield curve will increase debt servicing costs by $460bn. With total interest expenses on government debt in FY2021 at $562bn, the total annual debt servicing costs would rise to roughly $1trn".*[2]

We think generating the kind of growth, tax rises and spending cut combination needed to get the debt ratios down to previous historic levels will also be difficult. A modest combination of the above will likely occur, but based on the evidence of prior debt bubbles the most likely approach taken will be to slowly "monetize" the debt via a combination of a higher nominal growth and moderately higher inflation (i.e. very limited real growth). We think it is in most governments' interest to run with inflation in the 3-4% area, with nominal growth slightly above, over an extended period of time to get debt to GDP levels lower.

[2] For more, see also links here: Debt to the Penny and Interest Expense on the Debt Outstanding.

Our logic is that it will be difficult for rates to climb very high and probably a terminal Fed Fund rate for this cycle of 2.0-2.5% looks the most likely outcome by early 2023. Were inflation not to reduce closer to target, we obviously could not rule out an interest rate increase that is both higher and quicker. Said another way, the market pricing looks a little too dovish.

Historically the market has been consistently wrong on the future direction of rates



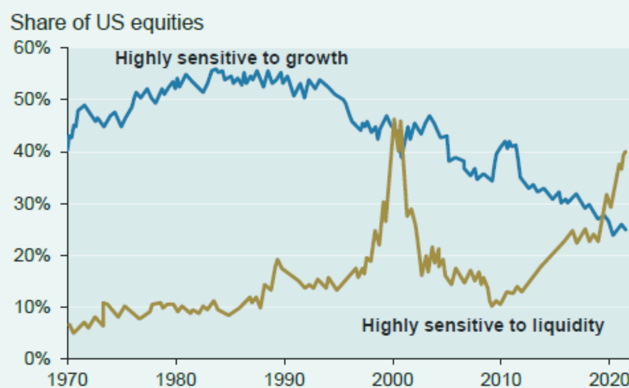
Source: Apollo

Outside of the US, the low growth of the EU makes it very difficult to see much in the way of rate rises. For the UK we'd expect a similar track to the US, with a lag as has been the case in the past. As mentioned we have already seen various EM nations raise rates (Brazil to 9%, Russia to 8%) as they struggle to contain inflation but they are closer to their peak than most developed markets.

Is the "everything rally" about to go pop?

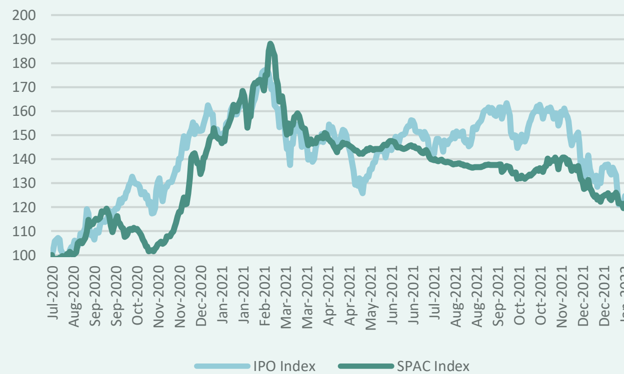
Against the backdrop of higher interest rates we were posed the above question. It is undeniable that the majority of financial assets have benefited in the last decade plus of QE/ZIRP/NIRP policies. However, we think a correction has already got going in the more speculative parts of the markets, at least within public markets if not private markets. In recent years markets have become much more sensitive to liquidity conditions and as this has turned we have witnessed significant corrections in highly speculative new issues / SPACs and various alt coins/NFTs and meme-related investments. Following more hawkish central bank comments in January, the correction has gathered further momentum in the first few weeks of January and has now spread into other sectors.

US markets have become more sensitive to liquidity conditions in recent years



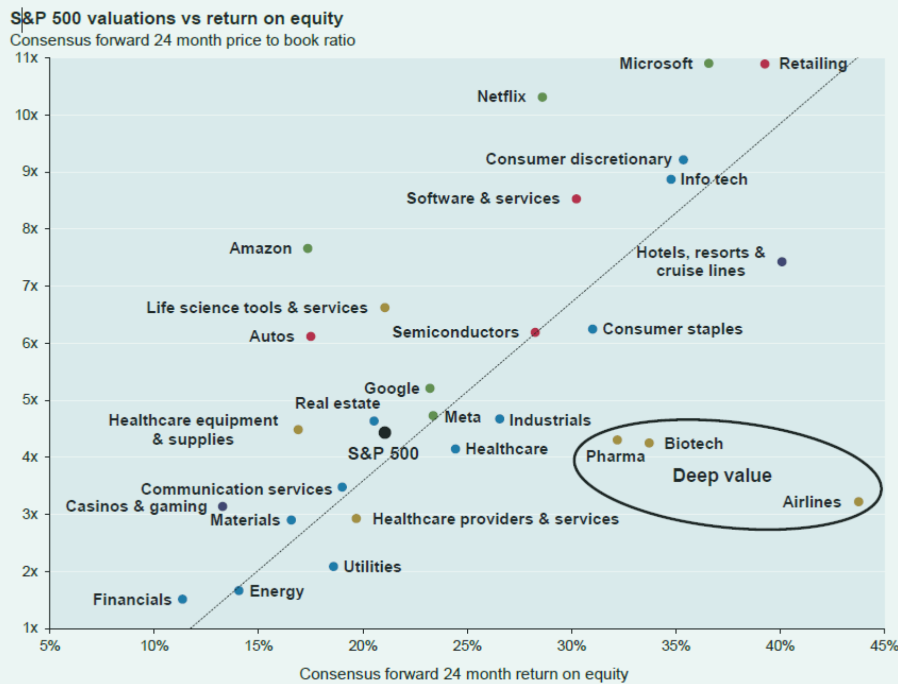
Source: JPM Eye on the Market, Dec 2021

Signs of market weakness have been prevalent in the underperformance of the more speculative parts of the market



Source: Bloomberg.

Generally speaking, the year ended with the US equity market looking expensive, but given strong earnings growth and the prevalence of a number of large, world class global companies, we don't see widespread excess and there are some pockets of value to which we have exposure (healthcare and biotech).



Source: JPMAM

Outside of the US, markets appear much cheaper and, given a higher weighting to financials, commodity companies and industrials, non-US markets have the potential to outperform US markets for the first time in many years.

Within fixed income, our base case expectations are for negative returns across all moderate to high duration asset classes and potentially even short duration assets. If equity market volatility picks up meaningfully then a negative return in high yield credit markets is possible. High yield returned +2.5% in 2021, with coupon returns offsetting the impact of higher yields and some losses. We expect credit losses to be quite low, but spreads are likely to drift higher off the back of weak inflows into the asset class.

The "everything rally" has definitely made its way into most parts of the private markets as mentioned earlier. Timing these markets is fraught with great difficulty and our approach is simply to be as disciplined as possible with our commitment programmes. The best way to invest here is to be diversified in terms of vintage and strategy (i.e. invest in different stages of company life cycles versus being too focussed on one at the expense of the other) and avoid the more speculative areas. We share more on this in our portfolio positioning section below.

In summary, a number of "bubbles" appear well on their way to being popped (or have popped), but we also see pockets of value emerging especially in specific sectors of public markets as mentioned above (EM, Healthcare) and opportunity in non-US names.

INVESTMENT THEMES

In this section we delve a little more into select specific themes that we have recently added to portfolios. We discuss our first entry into the blockchain space and update our thoughts on tail risk protection in portfolios. It is our intention to cover 1-2 topics each year.

Enterprise Blockchain

We started thinking about digital assets in early 2018 after a conversation with one of our well-respected friends in the private equity industry[3]. Like him, we tried to approach the subject as long-term investors looking for an appropriate trade-off between risk and reward. We found it difficult to build a compelling argument for our clients to hold Bitcoin and other crypto assets given the very high levels of volatility, large-scale retail speculation and inability to quantitatively attribute a dollar value, let alone a range of value to the assets. We all know how Bitcoin and various other coins have performed positively since then, particularly in the aftermath of the pandemic. Despite our concerns, we believed a tipping point was on the horizon where institutional adoption became more widespread which would create the necessity for accompanying infrastructure, exchange and custody mechanisms. We continued to monitor the industry and believe we have reached that tipping point. In the last few months we have become more convinced about the use cases for blockchain technology for the long term rather than being long a single coin or group of coins where understanding ex-ante which coin might prove more popular than another would be very difficult.

Number of US companies mentioning a digital asset key word on earnings call

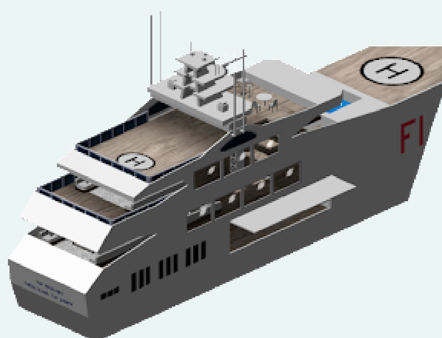
Source: BofA

[3] An (Institutional) Investor's Take on Cryptoassets | by John Pfeffer | John Pfeffer | Medium

During the course of last year after several conversations with our partners in the VC and endowment world, we started meeting specialist managers who we thought could help us express our thesis. Essentially, that the shift to blockchain usage is still in its infancy and has the potential to transform the way companies and individuals interact across a wide range of sectors – but most obviously Financial Services (especially where smart contracts are useful such as in insurance, in settlements/payments which can be instantaneous with stable coins), Supply Chain / Logistics, and various aspects of Gaming which is generally a huge driver of tech innovation. Inevitably there will be correlation with the continued adoption of Bitcoin and other digital assets, but we were not seeking a purely directional bet on the success of any one token or system of payment.

As with any innovation, there will be euphoria and frankly stupidity. One of our favourite examples here is the purchase of a "Digital Yacht" in the metaverse – this NFT (non-fungible token) was purchased for $650k. It does feature two helipads and a hot tub! You can view it on OpenSea (a platform for buying and selling NFTs) [4].

The Metaflower was purchased for 149 ETH in November 2021



Putting amusing examples of this extreme speculation to one side, our view is that the blockchain ecosystem is just too useful in several areas for it to disappear. Equally, our own ability to stay on top of a market that is evolving so fast is limited, so partnering with a well-tenured deep expert in the space felt a sensible long-term strategy. Consequently, both our team and a selection of our clients now have exposure, albeit in small size, and we will look to add over time as our knowledge and comfort level grows. We expect to hear much more about Decentralized Finance, Smart Contract usage and more in the coming months and years. In the spirit of sharing some of our learnings we have included some of the better podcasts and reading materials in the appendix to this letter.

Tail Risk

In June we wrote that there were likely to be material benefits from adding tail risk protection to portfolios at the expense of holding a more diversified portfolio. We put this down to

1) Increasing correlation among asset classes – which continues as higher interest rates put pressure on most assets. This correlation rises higher in extreme shock scenarios.

2) Increasing leverage in the economy making markets more vulnerable to shocks exacerbating downside.

[4] https://opensea.io/assets/0xa342f5d851e866e18ff98f351f2c6637f4478db5/69268721851518851203477350973661279010842020632441619262890672708376456069120

In the second half of 2021 we added far out the money portfolio protection at the expense of fixed income/credit and some liquid absolute return assets, counterweighed with a small increase to equities. We cannot know for sure when market rallies come to an end, but end they will and often quite violently. For this reason we are very comfortable with our approach, which is also more liquid and tax efficient for most family investors.

The tail risk position is not just limited to equity exposure but includes other asset classes that could represent a source of very high volatility, including commodities, interest rates and currencies whose volatilities continue to fluctuate around historical lows. This was particularly useful in Q4 where we saw an increase in volatility outside of equities, in particular commodities and currencies.

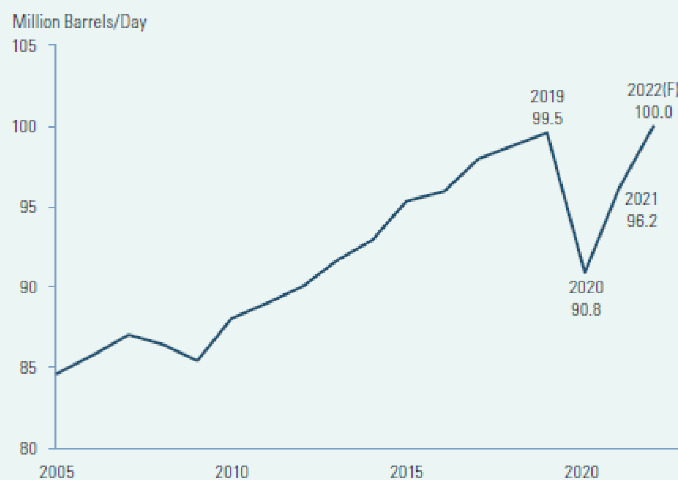
Energy equities

As mentioned in our outlook section, one of our biggest concerns has been the potential for stickiness in the price of energy – specifically oil and gas. The chronic lack of investment in this area over the last decade leaves society exposed to shortfalls in energy stemming from alternatives. The failure to ramp-up nuclear, and the continued resistance to it is a case in point. While we expect zero carbon energy to form more and more of our energy sources as they surely must, we believe there is vulnerability in the “interim” period.

Given the time it takes to turn supply back on and that it is in the interests of major oil producers to keep prices high given several years of weak pricing, we think the backdrop looks strong for energy stocks with the risk for higher energy prices skewed to the upside. Consequently, we are adding a small exposure to energy stocks via an ETF within our equities allocation which is generally underweight energy at the expense of healthcare and technology.

Exhibit 41: Global Petroleum Demand

Oil demand is expected to reach new highs in 2022.



Source: GS, Jan 2022

PORTFOLIO POSITIONING

The main change to our asset allocation in 2021 was the reduction in credit and the subsequent addition to portfolio insurance and equities. Entering 2022 our broad asset allocation has not changed. We continue the rotation into equities and portfolio insurance whilst exiting our Gold position as our outlook has changed for this asset. Within credit we maintain a small allocation to liquid credit through short duration investments, whilst increasing our exposure to private credit, preferring asset backed lending with 12–18-month durations to minimise interest rate risk. Within equities we have moderated US equity exposure relative to other markets and added energy stocks to our equities allocation via an ETF. In privates our exposure remains similar with investments designed to mitigate J-curve (e.g. co-investment funds) and taking a bar-bell approach of pairing higher growth, option-like returning opportunities (early-stage VC) with strategies with strong downside protection and yield (infrastructure, data centres).

Asset Class	Long-Term Strategic Allocation	2021 Mid-Year Update	2022 Tactical Asset Allocation
Cash / Money Markets	2%	2%	3%
Government Bonds	13%	0%	0%
Credit (Liquid)	10%	5%	3%
Credit (Private)	5%	5%	8%
Absolute Return	10%	20%	20%
Long-Short Equities	5%	5%	5%
Public Equities	30%	35%	37%
Private Equity / Venture Capital	20%	15%	15%
Real Estate	5%	5%	5%
Gold	0%	5%	-
Portfolio Insurance	-	3%	4%
Total	**100%**	**100%**	**100%**

OVERALL CONCLUSIONS

Therefore, to reiterate our conclusions we think that:

1. Liquidity will tighten creating a more challenging backdrop in 2022 – though we remind all readers that the average annual decline in S&P 500 has been -14% and has typically recovered within 6-12 months

2. Inflation is going to be a problem which remains with us until supply/demand finds an equilibrium within supply chains, housing, labour and energy

3. The lack of fossil fuel investment and the slow transition to clean/low carbon energy creates an upside risk to energy prices to remain high putting upward pressure on inflation, hurting consumer confidence and ultimately taxing growth

4. We have added "tail risk hedging" into client portfolios to allow us to maintain the correct risk budget for each client irrespective of market conditions and reduced fixed income / credit allocations as we expect negative returns for the near term

FAVOURITE BOOKS AND PODCASTS

As an addition to our letter we wanted to share some of the books and podcasts the team enjoyed reading and listening to this past year.

Books

1. Psychology of Money, by Morgan Housel – a great book featuring timeless lessons on investments, wealth and appreciating how just a few decisions can influence one's life.

2. Prisoners of Geography, by Tim Marshall – Have you ever played the board game Risk? You then know the importance geography/location has on your success. This book brings that to life explaining how the location of each country, and where territorial lines are drawn, has led to its success, or failure. A book that brings to life the world's balance of power through the lens of a geographer.

3. Killing Commendatore, by Haruki Murakami – a story about a Japanese portrait painter which we can best describe as taking as many twists as his own paintings.

Podcasts

1. Interview with Katie Hall, CIO of Hall Capital with Ted Seides of Capital Allocators. Katie Hall is the founder of Hall Capital, a $40B OCIO serving US families and endowments. Her investment philosophy is one we share a lot in common with.
   https://capitalallocators.com/podcast/hall-capital-partners/

2. Interview with Roleof Botha, CEO of Sequoia Capital with Patrick O'Shaughnessy of Invest Like the Best. Roleof is the CEO of Sequoia Capital one of the oldest venture capital firms founded in 1970. Roleof describes the current set-up of venture capital as out-dated and has not moved with the times. He talks about restructuring their approach to become "evergreen" investors enabling them to work with founders and companies from inception/seed to exit (IPO/M&A etc).
   https://podcasts.apple.com/ie/podcast/roelof-botha-sequoias-crucible-moment/id1154105909?i=1000540857193

3. Interview with Tushar Jain and Kyle Samani, founders of Multicoin Capital by Michael Liddy of Evanstan Capital. Multicoin is a crypto hedge fund and venture firm who gave an excellent overview of the history of crypto-related investment opportunities and their view on of the future.
   https://capitalallocators.com/podcast/multicoin-capital/

Further crypto information:

1. Crypto:
   https://open.spotify.com/episode/46r8KbdLbKNbBd2vD2BZDY?si=EEKDOlGAQBi0ewpaFLBLEA

2. NFTs:
   https://open.spotify.com/episode/7KYIwpYW1e6aTYYyYu9O8G?si=9pCA0AolQs692pbQz2EKMQ

3. Web3:
   https://open.spotify.com/episode/2xfo123ml0M1mYs3jHIM6B?si=L5n4CcV5Q5eQsVTpJ2cl8w

4. Messari Crypto report:
   https://messari.io/crypto-theses-for-2022

5. Bank of America's Digital Assets Primer:
   https://www.nasdaq.com/articles/bank-of-america%3A-bitcoin-and-cryptocurrencies-are-too-large-to-ignore-2021-10-06

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